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Statement of Position on

Financial Accounting and Reporting by Colleges and Universities

August 31, 1974

Proposal to Financial Accounting Standards Board to Amend AICPA Industry Audit Guide on Audits of Colleges and Universities

Issued by Accounting Standards Division
American Institute of Certified Public Accountants
Notes

The American Institute of Certified Public Accountants has issued a series of industry-oriented Audit Guides that present recommendations on auditing procedures and auditors' reports and in some instances on accounting principles, and a series of Accounting Guides that present recommendations on accounting principles. Based on experience in the application of these Guides, AICPA Task Forces may from time to time conclude that it is desirable to change a Guide. A Statement of Position is used to revise or clarify certain of the recommendations in the Guide to which it relates. A Statement of Position represents the considered judgment of the responsible AICPA Task Force.

To the extent that a Statement of Position is concerned with auditing procedures and auditors' reports, its degree of authority is the same as that of the Audit Guide to which it relates. As to such matters, members should be aware that they may be called upon to justify departures from the recommendations of the Task Force.

To the extent that a Statement of Position relates to standards of financial accounting or reporting (accounting principles), the recommendations of the Task Force are subject to ultimate disposition by the Financial Accounting Standards Board. The recommendations are made for the purpose of urging the FASB to promulgate standards that the Task Force believes would be in the public interest.
August 31, 1974

Marshall S. Armstrong, CPA
Chairman
Financial Accounting Standards Board
High Ridge Park
Stamford, Connecticut 06905

Dear Mr. Armstrong:

Proposal to Amend the AICPA Industry Audit Guide on Audits of Colleges and Universities

Two recent publications on college and university financial accounting and reporting have endorsed expansion, clarification and revision of the AICPA Industry Audit Guide on Audits of Colleges and Universities (Audit Guide) in certain respects. The new publications are College and University Business Administration -- Administrative Service, published in May, 1974 by the National Association of College and University Business Officers, and Report of the Joint Accounting Group, published in March, 1974 by the Western Interstate Commission for Higher Education.

Members of the AICPA Accounting Standards Task Force on Colleges and Universities participated in a consultative capacity in the development of both publications and the Task Force has prepared the accompanying Statement of Position. Its purpose is to bring to your attention amendments to the Audit Guide recommended by the Task Force to conform the guide to the new publications and
to request that the profession be advised, by whatever means seems appropriate, whether FASB concurs with the proposed amendments.

The amendments would give effect to the revenue, expenditure, and transfer descriptions and classifications set forth in Part 5 of the Administrative Service. They would be consistent with recommendations in those respects in the Report of the Joint Accounting Group.

Issuance of this Statement of Position will help to apprise independent auditors and others who are interested in college and university accounting and financial reporting matters of the existence of the two new publications and of the recommendation of the Task Force as to the appropriate corresponding amendment of the Audit Guide. We urge, however, as a further and more conclusive step that FASB advise the accounting profession at an early date as to whether it believes the proposed amendments are appropriate and should be regarded as having the same authoritative support as if they had been included in the Audit Guide initially. A prompt indication to the profession is especially desirable in view of the extensive recent distribution of the two aforementioned publications and in anticipation that some institutions may want to adopt the revised classifications in their fiscal 1974 financial statements.
Members of the Task Force will be glad to meet with you or your representatives to discuss these proposals. It would appreciate being advised as to the Board's proposed action on its recommendations.

Sincerely yours,

ACCOUNTING STANDARDS TASK FORCE
ON COLLEGES AND UNIVERSITIES

Jay H. Anderson, Chairman
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BACKGROUND INFORMATION

At the time of final editing of the Industry Audit Guide on Audits of Colleges and Universities (Audit Guide) in June, 1973, the Committee of AICPA members which prepared the Audit Guide was aware of discussions then in progress among members of the Accounting Principles Committee of the National Association of College and University Business Officers (NACUBO) and the National Center for Higher Education Management Systems (NCHEMS) concerning the classification of revenues and expenditures in higher education financial accounting and reporting. The Preface of the Audit Guide mentions that the guide was developed with the coordination and cooperation of representatives of NACUBO. Special provision for future modification of revenue, expenditures and transfer categories was incorporated at the beginning of the chapters in the Audit Guide on current funds revenues, expenditures and transfers by inserting: "the following categories have been endorsed for current use by the National Association of College and University Business Officers."
The fundamental accounting principle relating to presentation of revenues and expenditures which was adopted by the Audit Guide Committee was that revenues should be classified by source and expenditures by function. The Committee felt that, as long as this basic classification philosophy was adhered to, any reasonable amount of detail of revenues, expenditures and transfers desired by the industry would be agreeable to the accounting profession. The detailed categories of revenues, expenditures and transfers shown in the Audit Guide reflected the most recent recommendations of NACUBO at that time and deviated somewhat from those displayed in the 1968 revised edition of College and University Business Administration, or CUBA (1968). CUBA (1968) was published by the American Council on Education and, until publication of the Audit Guide by the AICPA in August 1973 and Part 5 of College and University Business Administration -- Administrative Service (Administrative Service) by NACUBO in May 1974, was regarded as the major authoritative pronouncement on college and university accounting and financial reporting.

Efforts were launched in the summer of 1969 by NACUBO to revise CUBA (1968). Efforts were under way at NCHEMS to prepare a Higher Education Finance Manual (HEFM), a project sponsored by the U.S. Office of Education to provide, among other things, procedures and formats for reporting financial data needed for planning and management at the institutional as well as state and federal government levels. A meeting of representatives of each
of three interested groups (NACUBO, NCHEMS and AICPA) resulted in the concept of a joint effort to identify and clarify areas of difference and explore mutually satisfactory ways of developing more uniformity. The Chairman of the AICPA Committee which had developed the Audit Guide and two other members of that Committee, which officially dissolved in October, 1973, were invited to become members, along with NACUBO and NCHEMS representatives, of a new Joint Accounting Group (JAG) to carry out these objectives.

JAG's work was completed with the publication by the Western Interstate Commission for Higher Education, Boulder, Colorado, in March, 1974 of the Report of the Joint Accounting Group. The primary recommendation of that report was that, with the exception of current funds revenues, expenditures and transfers, higher education institutions should utilize the accounting definitions and practices outlined in the Audit Guide. The JAG report in Appendixes I and II set forth recommended revenue, expenditure and transfer category descriptions which represented a revision of those presented in the Audit Guide. The JAG also recommended that its revised revenue, expenditure and transfer categories be incorporated into the Audit Guide and the new Administrative Service. The categories recommended by the JAG were later used by NACUBO in its preparation of Part 5 of the new Administrative Service. Thus the report of the JAG was an initial step toward the inclusion of the revised revenue, expenditure and transfer categories in the new Administrative Service which the Task Force now considers more current than those included in the Audit Guide.
The JAG was formed in the summer of 1973 and at the same time, at the request of officials of NACUBO, the Accounting Standards Division of the AICPA organized a Task Force, consisting of four of the members of the former Audit Guide Committee (including the three individuals participating with the JAG), to consult with NACUBO's Accounting Principles Committee regarding the revision of CUBA (1968). This revision was published as a section (Part 5) of the new looseleaf Administrative Service. It can be obtained by subscription from NACUBO, Suite 510, One Dupont Circle, Washington, D.C. 20036. The new Administrative Service replaces CUBA (1968) as the major authoritative pronouncement on college and university accounting and financial reporting published by the industry.

Both the NACUBO and JAG efforts were conducted in close coordination with each other and involved overlap of representatives of AICPA, NACUBO and NCHEMS. Both of these projects involved a certain amount of refinement of revenue, expenditure, and transfer definitions and classifications. However, no deviations from the fundamental accounting principles, auditing procedures or standards of financial statement presentation from those set forth in the Audit Guide were advocated in the two publications. Neither of the publications deals at all with auditing standards. The participation of AICPA Committee and Task Force members in these two publication efforts was geared to provide the two primary
constituencies (NACUBO and NCHEMS) with background information and explanations about the content of the Audit Guide and to assist them in making sure that their publications did not deviate from the basic accounting principles and standards of financial reporting contained in the Audit Guide. Even though the JAG report and the new Administrative Service reflect different literary styles, the Task Force members who were involved in the consulting projects believe that those publications do not contain any significant deviations from the accounting principles and reporting standards reflected in the Audit Guide. The Audit Guide concept of revenues by source and expenditures by function has been followed.

RECOMMENDATION

The Task Force believes that the descriptions and classifications of revenues, expenditures and transfers, as they pertain to current funds, set forth in Chapters 5:2 (Current Funds), 5:6 (Chart of Accounts) and 5:7 (Illustrative Exhibits) of the new Administrative Service should be recognized by practitioners as representing more current descriptions and classifications than those presented in the Audit Guide and that, until such time as the Audit Guide is revised, independent auditors should refer to those parts of NACUBO's new Administrative Service, which are appended to this Statement of Position, in connection with current funds revenue, expenditure and transfer account descriptions and classifications.
Specifically, the Task Force believes the Audit Guide should be considered as being superseded by the Administrative Service as follows:

a. Pages 20-24 of Chapter 5, Current Funds Revenues, of the Audit Guide, through the section on Expired Term Endowments, should be superseded by the section Current Funds Revenues beginning on Page 2 of Chapter 5:2, Current Funds, of the Administrative Service.

b. Pages 26-30 of Chapter 6, Current Funds Expenditures and Transfers, of the Audit Guide, through the section on Other Transfers -- Unrestricted Current Funds, should be superseded by the section on Current Funds Expenditures and Transfers, beginning on Page 6 of Chapter 5:2, Current Funds, of the Administrative Service.

c. The Illustrative Financial Statements in Exhibits A-C on Pages 60-72 of the Audit Guide should be superseded by Chapter 5:7, Illustrative Exhibits, of the Administrative Service.

d. The section of Chapter 5:6, Chart of Accounts, of the Administrative Service, beginning with Current Funds Revenues Accounts through the end of Page 10, should be added to the Audit Guide as Appendix A.

The Task Force further believes that adoption of the expanded descriptions and classifications should be effective for all fiscal years beginning after June 30, 1974 and that earlier adoption should be permissible.
Current Funds

The Current Funds group includes those economic resources of a college or university which 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.

The Current Funds group has two basic subgroups—unrestricted and restricted. Unrestricted current funds include all funds received for which no stipulation was made by the donor or other external agency as to the purposes for which they should be expended. Restricted current funds are those available for financing operations but which are limited by donors and 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, hospitals, and independent operations in either the Unrestricted Current Funds or Restricted Current Funds subgroup or both, as appropriate.

Assets, Liabilities, and Fund Balances of Current Funds

Assets usually consist of cash, accounts receivable, including unbilled charges, notes receivable, undrawn appropriations, investments, amounts due from other fund groups, inventories, prepaid expenses, and deferred charges. “Unbilled charges” are those which have been earned but which, because of inadequate information, incomplete projects or programs, or the timing of the billing cycle, have not been formally billed at the balance sheet date. “Undrawn appropriations” are those to which the institution is entitled, but which have not been remitted or made available to the institution by the appropriating federal, state, or local agency. “Deferred charges” are expenditures that are related to projects, programs, activities, or revenues of future fiscal periods.

Liabilities usually consist of accounts and notes payable, accrued liabilities, deposits, amounts due to other fund groups, and deferred credits. Accrued liabilities include such items as interest, wages, salaries, and taxes. Deferred credits are those revenues of unrestricted current funds that are applicable to a future period, when they become earned.

The individual assets and liabilities, but not the fund balances, of unrestricted and restricted current funds are sometimes combined for reporting purposes, but if they are combined, the borrowings between unrestricted and restricted funds should be disclosed by footnote or other appropriate means.

The fund balances may be subdivided to show allocations applicable to auxiliary enterprises, hospitals, independent operations, outstanding encumbrances, other allocations by operating management or by the governing board, budget balances brought forward from prior fiscal periods, and the unallocated balance.
Changes in the balances of unrestricted current funds include the gross amount of all unrestricted revenues and expenditures applicable to the reporting period, as determined in accordance with the accrual basis of accounting, and transfers to and from other fund groups for the period. Significant allocations of unrestricted current fund balances should be disclosed.

The fund balances of restricted current funds should be classified in the accounting system to show the various classes and sources of funds and purposes of restriction. Such restrictions often relate to the use of endowment fund income; gifts, grants, and contracts from private and governmental sources; and legislative appropriations. Further breakdowns may be provided to show amounts restricted to auxiliary enterprises, hospitals, and independent operations, if such activities are the beneficiaries of restricted current funds.

Additions to fund balances of restricted current funds arise from the sources indicated in the preceding paragraph. Deductions from restricted fund balances result from:

1. Direct expenditures and mandatory transfers.
2. Refunds to donors and other external agencies.
3. Amounts transferred to unrestricted revenues representing indirect cost recoveries on appropriate programs.
4. Nonmandatory transfers.

Current Funds Revenues

Current funds revenues include (1) all unrestricted gifts, grants, and other resources earned during the reporting period and (2) restricted resources to the extent that such funds were expended. Current funds revenues do not include restricted current funds received but not expended or resources that are restricted by external persons or agencies to other than current funds.

Interdepartmental transactions between service departments and storerooms and other institutional departments or offices should not be reported as revenues of the service departments but rather as reductions of expenditures of such departments, since these transactions are essentially interdepartmental transfers of costs. The billed price of services and materials obtained from service departments and central stores by offices and departments of the institution should be accounted for as expenditures of those offices and departments, just as if they had been obtained from sources outside the institution. Any difference between costs and billed prices as recorded in the service department account, whether credit or debit, should be reported under the Institutional Support expenditures classification.

Certain intrainstitutional transactions, however, should be reflected in the operating statements of the institution as revenues and expenditures. Materials or services produced by an instructional department as a by-product of the instructional program and sold to other departments or to auxiliary enterprises or hospitals—for example, milk sold by the dairy department to the dining halls—should be treated as sales and services revenues of the selling department and as expenditures of the receiving department. 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 materials.

Unrestricted and restricted current funds revenues should be grouped into the following major classifications by source of funds:

- 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, including expired term endowments and expired life income agreements, if not material; otherwise, separate category
- Independent Operations
Tuition and Fees

This category 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 student. The amounts of such remissions or waivers 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.

When specific fees are assessed under binding external restrictions for other than current operating purposes—for example, debt service on educational plant or on renewals, replacements, or additions to plant—they should be reported as additions to the appropriate fund group (in the above example, plant funds), since they are not legally available for current operating purposes. Fees normally are not considered as assessed under binding external restrictions unless there is an explicit representation to the individuals remitting the fees that the fee or a specific portion thereof can be used only for the specific nonoperating purpose.

If some portion of total tuition or fee receipts is pledged under bond indenture agreements, the total receipts should be reported as unrestricted current funds revenues and the pledged amount treated as a mandatory transfer to plant funds.

If some portion of tuition or fees is allocated by action of the governing board, or subject to change by the governing board alone, for other than operating purposes, such as financing construction, the whole of the tuition charges or fees should be recorded as unrestricted current funds revenues and the portion allocated should be treated as a nonmandatory transfer to the appropriate fund group (in the above example, plant funds).

Revenues pledged under bond indenture agreements should not be reported as additions to plant funds, but should be reported as unrestricted current funds revenues, and funding of debt service requirements treated as mandatory transfers.

If an all-inclusive charge is made for tuition, board, room, and other services, a reasonable distribution should be made between revenues for tuition and revenues for sales and services of auxiliary enterprises.

Revenues from tuition and student fees of an academic term that encompasses two fiscal years—for example, a summer session—should be reported totally within the fiscal year in which the program is predominantly conducted.

If tuition or fees are remitted to the state as an offset to the state appropriation, the total of such tuition or fees should be deducted from the total for state appropriations and added to the total for tuition and fees.

Governmental Appropriations

This category includes (1) all unrestricted amounts received for current operations from, or made available to an institution by, legislative acts or local taxing authority and (2) restricted amounts from those same sources to the extent expended for current operations. This category does not include governmental grants and contracts. Amounts paid directly into a state or local retirement system by the appropriating government on behalf of the college or university should be recorded as revenue of the institution. This category does not include institutional fees and other income reappropriated by the legislature to the institution.

The determination of whether a particular government appropriation should be classified as restricted or unrestricted funds is based on the ability of the governing board of the institution to effect a change in the intended use of the funds. If a change in a particular restriction can be made without having to go through the legislative process, the funds should be considered unrestricted. Funds are unrestricted even if they are distributed to the institution for purposes specified by an intermediate group, such as the governing board. In this case, if a change in the use of funds needs to be made, it can be made by the intermediate body without going through the legislative process; the funds therefore would be unrestricted. Such appropriations should be considered unrestricted funds unless the restrictions are so specific that they substantially reduce the institution's flexibility in financial operations. Appropriations in terms of major object classes or to colleges and branch institutions should be classified as unrestricted current funds.

Governmental appropriations should be classifi-
fied to identify the governmental level—federal, state, or local—of the legislative body making the appropriation to the institution. The fundor level is the level of the agent that makes the decision that the moneys will be appropriated to the particular purpose for which they ultimately are expended. For example, if the federal government stipulates a specific use for some funds that merely flow through the state to the institution, the funds should be classified as federal funds. However, if the federal government distributes funds to the state for unspecified general purposes—for example, general revenue sharing—and the state then appropriates all or a portion of those funds, the funds received by the institution should be classified as state rather than federal funds.

**Governmental Grants and Contracts**

This category includes (1) all unrestricted amounts received or made available by grants and contracts from governmental agencies for current operations and (2) all amounts received or made available through restricted grants and contracts to the extent expended for current operations.

Amounts equal to direct costs incurred by restricted current funds should be recorded as revenues of those funds, while amounts equal to associated indirect cost recoveries should be reported as unrestricted current funds revenues.

The government fundor level should be disclosed using the same criterion described for governmental appropriations.

**Private Gifts, Grants, and Contracts**

This category includes amounts from nongovernmental organizations and individuals, including funds resulting from contracting for the furnishing of goods and services of an instructional, research, or public service nature. It includes all unrestricted gifts, grants, and bequests as well as all restricted gifts, grants, and contracts from nongovernmental sources to the extent expended in the current fiscal year for current operations. Gifts, grants, and contracts from foreign governments should be treated as private gifts, grants, and contracts. Income from funds held in revocable trusts or distributable at the direction of the trustees of the trusts should be reported as a separate revenue source under this classification. This category excludes revenues derived from contracts and other activities, such as utility services, that are not related directly to instruction, research, or public service.

Amounts equal to the direct costs incurred by restricted current funds should be reported as revenues of those funds, while amounts equal to the associated indirect cost recoveries should be recorded as unrestricted current funds revenues.

**Endowment Income**

This category includes:

1. Unrestricted income from endowment and similar funds.
2. Restricted income from endowment and similar funds to the extent expended for current operations.
3. Income from funds held by others under irrevocable trusts, which should be identified separately under this revenue heading.

The unrestricted income from investments of endowment and similar funds credited to unrestricted current funds revenues should be the total ordinary income earned (or yield), except for income that must be added back to the principal in accordance with the terms of the agreement of donation. If endowment fund investments include real estate, the income should be reported on a net basis after allowing for all costs of operating and managing the properties.

Income from investments of endowment and similar funds does not include capital gains and losses, since such gains and losses are accounted for in the Endowment and Similar Funds group as additions to and deductions from fund balances. If any portion of the gains of endowment or quasi-endowment funds is utilized for current operating purposes, the portion so utilized should be reported as a transfer rather than as revenue (see Chapter 5:3).

When investments of endowment and similar funds are pooled, the amounts reported as revenues of unrestricted current funds and as additions to restricted current funds should be substantially equal to the amounts earned during the fiscal period and attributable to the various funds.

Many institutions have established endowment income stabilization reserves to spread or allocate current investment income. Two methods have been followed in establishing such reserves.
Under one method, a portion of the total revenue from the investment pool is not allocated to the participating funds, but is set aside in a stabilization reserve; the balance of the investment pool revenue is distributed to the participating funds. This method is not in accordance with generally accepted accounting principles for the following reasons:

1. The balance in the stabilization reserve may represent undistributed income attributable to both restricted and unrestricted current funds. Thus the balance in the reserve cannot be reported accurately in the financial statements.

2. To the extent any of the undistributed income earned during the fiscal year is attributable to unrestricted current funds, an understatement of revenues of unrestricted current funds will occur.

3. Questions might arise as to the authority of the governing board to withhold amounts of income attributable to, but not distributed to, restricted current funds.

Institutions carrying balances in endowment income stabilization reserves created under this method should dispose of them as appropriate.

The second method, which conforms to generally accepted accounting principles, would distribute all income from the pools to the participating funds. The amount applicable to unrestricted current funds would be reported as endowment income. Any amounts set aside for a stabilization reserve should be shown as an allocation of the unrestricted current funds balance and appropriately reflected in the balance sheet as a subdivision of that balance. Amounts applicable to restricted current funds should be reported as an addition to those fund balances. The amounts expended from such balances should be shown as revenues of endowment income in the restricted current funds. Amounts unexpended would remain as balances to be carried forward to the next period.

Sales and Services of Educational Activities

This category includes (1) revenues that are related incidentally to the conduct of instruction, research, and public service and (2) revenues of activities that exist to provide an instructional and laboratory experience for students and that incidentally create goods and services that may be sold to students, faculty, staff, and the general public. The type of service rendered takes precedence over the form of agreement by which these services are rendered. Examples of revenues of educational activities are film rentals, sales of scientific and literary publications, testing services, and sales of products and services of dairy creameries, food technology divisions, poultry farms, and health clinics (apart from student health services) that are not part of a hospital. Revenues generated by hospitals (including health clinics that are a part thereof) should be classified as sales and services of hospitals.

If sales and services to students, faculty, or staff, rather than training or instruction, is the purpose of an activity, the revenue should be classified as sales and services of auxiliary enterprises or hospitals.

Sales and Services of Auxiliary Enterprises

This category includes all revenues generated through operations by auxiliary enterprises. An auxiliary enterprise is 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 or services. The general public incidentally may be served by some auxiliary enterprises.

Auxiliary enterprises usually include residence halls, food services, intercollegiate athletics (if essentially self-supporting), college unions, college stores, and such services as barber shops, beauty parlors, and movie theaters. Even though they may serve students and faculty, hospitals are classified separately because of their size and relative financial importance.

This category is limited to revenues derived directly from the operation of the auxiliary enterprises themselves. Revenues from gifts, grants, or endowment income restricted for auxiliary enterprises should be reported under their respective source categories.

Sales and Services of Hospitals

This category includes revenues (net of discounts, allowances, and provision for doubtful accounts) generated by hospitals from daily patient, special, and other services. Revenues of health clinics that are part of a hospital should be
included in this category. Not included are revenues for research and other specific-purpose gifts, grants, or endowment income restricted to the hospital. Such funds should be included in the appropriate revenue sources described above.

Other Sources

This category should include all sources of current funds revenue not included in other classifications. Examples are interest income and gains and losses on investments in current funds, miscellaneous rentals and sales, expired term endowments, and terminated annuity or life income agreements, if not material.

Note: It is appropriate to subtotal all revenues described above; the subtotal excludes revenues of independent operations.

Transfers from Other Funds

Unrestricted amounts transferred from other fund groups back to the Current Funds group are not revenues of the current funds. An example is the return of quasi-endowment funds from the endowment and similar funds to unrestricted current funds. Such amounts should be identified separately and included in Nonmandatory Transfers (see expenditure categories).

Independent Operations

This category includes all revenues of those operations which are independent of, or unrelated to, but which may enhance the primary missions of the institution—instruction, research, and public service. Included are revenues associated with major federally funded research laboratories and other operations not considered an integral part of the institution's educational, auxiliary enterprise, or hospital activities. This category does not include the net profit (or loss) from operations owned and managed as investments of the institution's endowment funds.

Additions to Fund Balances

The term “additions” is in contrast to revenues and transfers. Additions are amounts received or made available to the restricted current funds during the reporting period as distinguished from the amounts of restricted funds expended during the fiscal period, which are reported as restricted fund revenues.

Current Funds Expenditures and Transfers

Current funds expenditures represent the costs incurred for goods and services used in the conduct of the institution's operations. They include the acquisition cost of capital assets, such as equipment and library books, to the extent current funds are budgeted for and used by operating departments for such purposes. If the amount of ending inventories or the cost of services benefiting subsequent fiscal periods is material (in terms of effect on financial statements), both inventories and deferred charges should be recorded as assets and previously recorded expenditures appropriately decreased. In a subsequent fiscal period these inventories and deferred charges as consumed should be included as expenditures of that period. Significant inventories of materials are usually present in central stores.

A capital asset is defined as any physical resource that benefits a program for more than one year. Capital expenditures therefore include funds expended for land, improvements to land, buildings, improvements and additions to buildings, equipment, and library books. Most institutional accounting systems provide for recording at least a portion of capital expenditures in the current fund expenditures accounts of the various operating units. Whether an expenditure is to be considered a capital expenditure is generally a matter for institutional determination, or in the case of some public institutions, it is prescribed by state regulation.

The general criteria for defining a capital asset are the relative significance of the amount expended and the useful life of the asset acquired, or in the case of repairs and alterations, the extent to which the useful life is extended. For expenditure reporting purposes, any item costing more than a specified amount, as determined by the institution or appropriate governmental unit, and having an expected useful life of more than one
year generally should be classified as a capital expenditure.¹

Interdepartmental transactions ordinarily should be accounted for as an increase in current fund expenditures of the department receiving the materials, services, or capital assets and as a decrease in current fund expenditures of the transferring department. Thus, total institutional expenditures are not inflated by the transactions. Examples are sales and services of service departments and central stores and transfers of material and equipment from one department to another. Any differences between the revenue from sales and services and the operating costs of service departments or central stores, whether debit or credit, are treated as Institutional Support expenditures. On the other hand, sales and services of an auxiliary enterprise to another department or auxiliary enterprise, or sales of materials produced by an instructional department to another department or auxiliary enterprise, would be reported as an expenditure of the department or auxiliary enterprise receiving the materials or services and as revenue of the department or auxiliary enterprise selling the materials or services.

Expenditures differ from transfers. Expenditures are the recognition of the expending of resources of the Current Funds group toward the objectives of each of the respective funds of that group. Transfers are amounts moved between fund groups to be used for the objectives of the recipient fund group. There are two types of transfers, mandatory and nonmandatory, which are fully described later in this chapter.

Expenditures and transfers may be classified in a variety of ways to serve a variety of purposes. Some of the factors bearing on the desired classification are:

1. The context in which appropriations, gifts, grants, and other sources of revenue are made to the institution.
2. The mode best suited for preparing and executing the budget.
3. The form that best serves the needs for financial reporting.

4. The presentation that will improve the quality of comparative studies among institutions. Thus, expenditures and transfers may be classified in terms of programs, functions, organizational units, projects, and object classes.

Classifications by program often cut across organizational, functional, and even fund group lines and are useful in the planning processes. The functional classification pattern—educational and general, auxiliary enterprises, hospitals, independent operations, and their subcategories—provides the greatest comparability of data among institutions. The classification by organizational units provides data corresponding to channels of intra-institutional administrative responsibilities. Classification by projects serves to provide data corresponding to the pattern in which gifts, grants, and contracts are utilized by the institution. Classification by object class—that is, according to materials or capital assets purchased or services received, such as personal services, staff benefits, printing and stationery, travel, communications, food, fuel, utilities, repairs, equipment, and library books—serves internal management needs.

Published financial reports usually classify expenditures and transfers in terms of function, organizational unit, and object, in that order.

It is suggested that the following functional classification be followed:

Educational and General
Expenditures
Instruction
Research
Public Service
Academic Support
Student Services
Institutional Support
Operation and Maintenance of Plant
Scholarships and Fellowships
Mandatory Transfers
Nonmandatory Transfers

Auxiliary Enterprises
Expenditures
Mandatory Transfers
Nonmandatory Transfers

¹The Cost Accounting Standards Board (CASB) has stipulated $500 and a useful life of more than two years as the threshold at which items must be considered capital assets, and Federal Management Circular 73-8 (formerly OMB Circular A-21) defines equipment as items having an acquisition cost of $2000 or more and an expected service life of one year or more. Different limits which are reasonable and consistently applied are acceptable.
Hospitals
Expenditures
  Mandatory Transfers
  Nonmandatory Transfers
Independent Operations
Expenditures
  Mandatory Transfers
  Nonmandatory Transfers

Educational and General

Instruction. This category should include expenditures for all activities that are part of an institution's instruction program, with the exception of expenditures for remedial and tutorial instruction, which should be categorized as Student Services. Expenditures for credit and noncredit courses, for academic, occupational, and vocational instruction, and for regular, special, and extension sessions should be included.

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

Research. 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. Subject to these conditions, it includes expenditures for individual and/or project research as well as those of institutes and research centers. 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 specifically for research are included in this category.

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

Academic Support. This category should include funds expended primarily to provide support services for the institution's primary missions—instruction, research, and public service. 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 associated with a department, school, or college of education; (3) media, such as audiovisual services and technology such as computing support; (4) academic administration (including academic deans but not department chairmen) and personnel development providing administrative support and management direction to the three primary missions; and (5) separately budgeted support for course and curriculum development. For institutions that currently charge certain of the expenditures—for example, computing support—directly to the various operating units of the institution, such expenditures are not reflected in this category.

Student Services. This category should include funds expended for offices of admissions and registrar and 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 newspaper, 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 of 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).
Institutional Support. 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, including the investment office; (3) administrative data processing; (4) space management; (5) employee personnel and records; (6) logistical activities that provide procurement, storerooms, safety, security, printing, and transportation 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, hospitals, and any other activities not reported under the Educational and General heading of expenditures.

Operation and Maintenance of Plant. This category should include all expenditures of current operating funds for the operation and maintenance of physical plant, in all cases net of amounts charged to auxiliary enterprises, hospitals, and independent operations. 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.

Scholarships and Fellowships. This category 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 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, 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 consideration for the grant, nor is he expected to repay the amount of the grant to the funding source. When services are required in exchange for financial assistance, as in the federal College Work-Study Program, the charges should be classified as expenditures of the department or organizational unit to which the service is rendered. Aid to students in the form of tuition or fee remissions also should be included in this category. However, remissions of tuition or fees granted because of faculty or staff status, or family relationship of students to faculty or staff, should be recorded as staff benefit expenditures in the appropriate functional expenditure category.

Mandatory Transfers. This category should 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 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.

Nonmandatory Transfers. This category should include those transfers from the Current Funds group to other fund groups made at the discretion of the governing board 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. It also may include the retransfer of resources back to current funds.

Auxiliary Enterprises

An auxiliary enterprise is 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 or services. The distinguishing characteristic of auxiliary enterprises is that they are managed as essentially self-supporting activities. Examples are residence halls, food services, intercollegiate athletics, (only if essentially self-supporting), college stores, faculty clubs, faculty and staff parking, and faculty housing. Student health services, when
operated as an auxiliary enterprise, also should be included. The general public may be served incidentally by auxiliary enterprises. Hospitals, although they may serve students, faculty, or staff, are separately classified because of their relative financial significance.

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 costs, whether charged directly as expenditures or allocated as a proportionate share of costs of other departments or units.

Expenditures. Expenditures of auxiliary enterprises are identified by using the same general criteria as for educational and general expenditures to distinguish them from transfers.

Mandatory Transfers. This type of transfer follows the same criteria of identification as for educational and general mandatory transfers to distinguish them from expenditures and nonmandatory transfers.

Nonmandatory Transfers. This type of transfer follows the same criteria of identification as for educational and general nonmandatory transfers to distinguish them from expenditures and mandatory transfers.

Hospitals

This category includes all expenditures and transfers associated with the patient care operations of the hospital, including nursing and other professional services, general services, administrative services, fiscal services, and charges for physical plant operations and 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. Expenditures for those activities which take place within the hospital, but which are categorized more appropriately as instruction or research, should be excluded from this category and accounted for in the appropriate categories.

Expenditures. The same criteria for identifying expenditures are used as in the case of educational and general expenditures to distinguish them from transfers.

Mandatory Transfers. The same criteria for identifying mandatory transfers are used as in the case of educational and general mandatory transfers to distinguish them from expenditures and nonmandatory transfers.

Nonmandatory Transfers. The same criteria for identifying nonmandatory transfers are used as in the case of educational and general nonmandatory transfers to distinguish them from expenditures and mandatory transfers.

Independent Operations

This category includes expenditures and transfers of those operations which are independent of, or unrelated to, but which may enhance the primary missions of the institution. This category generally is limited to expenditures associated with major federally funded research laboratories. This category excludes expenditures associated with property owned and managed as investments of the institution's endowment funds.

Expenditures. The same criteria for identifying expenditures are used as in the case of educational and general expenditures to distinguish them from transfers.

Mandatory Transfers. The same criteria for identifying mandatory transfers are used as in the case of educational and general mandatory transfers to distinguish them from expenditures and nonmandatory transfers.

Nonmandatory Transfers. The same criteria for identifying nonmandatory transfers are used as in the case of educational and general nonmandatory transfers to distinguish them from expenditures and mandatory transfers.

Deductions from Fund Balances

The term "deductions" is in contrast to expenditures and transfers. Deductions represent decreases in current fund balances, such as refunds to donors and grantors, and unencumbered or unexpended funds returned or returnable to the state treasury at fiscal year-end, depending on provisions of state statutes or appropriation acts.
Illustrative Exhibits

THE FIGURES used in the accompanying exhibits are illustrative only and are not intended to indicate any relationship among accounts. The summary of significant accounting policies and notes to financial statements relate to the illustrative statements. Modifications should be made thereto as appropriate to actual circumstances.

Material from the Industry Audit Guide, Audits of Colleges and Universities, copyright © 1973 by the American Institute of Certified Public Accountants, Inc., is adapted with permission.
### Liabilities and Fund Balances

<table>
<thead>
<tr>
<th>Liabilities and Fund Balances</th>
<th>Current Year</th>
<th>Prior Year</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Unrestricted</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash</td>
<td>$210,000</td>
<td>$360,000</td>
</tr>
<tr>
<td>Investments</td>
<td>$450,000</td>
<td>$360,000</td>
</tr>
<tr>
<td>Accounts receivable, less allowance</td>
<td>$235,000</td>
<td>$175,000</td>
</tr>
<tr>
<td>Due to other funds</td>
<td>$30,000</td>
<td>$20,000</td>
</tr>
<tr>
<td>Deferred credits</td>
<td>$90,000</td>
<td>$80,000</td>
</tr>
<tr>
<td>Fund balance</td>
<td>$1,006,000</td>
<td>$745,000</td>
</tr>
<tr>
<td><strong>Restricted</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash</td>
<td>$145,000</td>
<td>$101,000</td>
</tr>
<tr>
<td>Investments</td>
<td>$175,000</td>
<td>$165,000</td>
</tr>
<tr>
<td>Accounts receivable, less allowance</td>
<td>$235,000</td>
<td>$175,000</td>
</tr>
<tr>
<td>Fund balances</td>
<td>$446,000</td>
<td>$446,000</td>
</tr>
<tr>
<td><strong>Total current funds</strong></td>
<td>$1,466,000</td>
<td>$1,171,000</td>
</tr>
</tbody>
</table>

| **Loan Funds**               |              |            |
| Cash                         | $60,000      | $20,000    |
| U.S. government grants refundable |            |            |
| Fund balances                | $483,000     | $369,000   |
| **Total loan funds**         | $543,000     | $389,000   |

| **Endowment and Similar Funds** |              |            |
| Endowment                     | $7,800,000   | $6,740,000 |
| Term endowment                | $3,840,000   | $3,420,000 |
| Quasi-endowment—unrestricted  | $1,000,000   | $800,000   |
| Quasi-endowment—restricted    | $1,360,000   | $941,000   |
| **Total endowment and similar funds** | $14,000,000 | $11,901,000 |

### Balance Sheet

**Sample Educational Institution**

**Balance Sheet**

**June 30, 19**

**with comparative figures at June 30, 19**

<table>
<thead>
<tr>
<th>Liabilities and Fund Balances</th>
<th>Current Year</th>
<th>Prior Year</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Unrestricted</strong></td>
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</tr>
<tr>
<td>Cash</td>
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<tr>
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<td>$80,000</td>
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<td>$745,000</td>
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<tr>
<td><strong>Restricted</strong></td>
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<tr>
<td>Cash</td>
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<tr>
<td>Fund balances</td>
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<td>$446,000</td>
</tr>
<tr>
<td><strong>Total current funds</strong></td>
<td>$1,466,000</td>
<td>$1,171,000</td>
</tr>
</tbody>
</table>

| **Loan Funds**               |              |            |
| Cash                         | $30,000      | $20,000    |
| U.S. government grants refundable |            |            |
| Fund balances                | $355,000     | $382,000   |
| **Total loan funds**         | $385,000     | $402,000   |

| **Endowment and Similar Funds** |              |            |
| Endowment                     | $100,000     | $101,000   |
| Term endowment                | $101,000     | $101,000   |
| Quasi-endowment—unrestricted  | $1,000,000   | $800,000   |
| Quasi-endowment—restricted    | $1,360,000   | $941,000   |
| **Total endowment and similar funds** | $14,000,000 | $11,901,000 |
### Annuity and Life Income Funds

#### Annuity funds
- **Cash**: $55,000, $45,000
- **Investments**: $3,260,000, $3,010,000
- **Total annuity funds**: $3,315,000, $3,055,000

#### Life income funds
- **Cash**: $15,000, $15,000
- **Investments**: $2,045,000, $1,740,000
- **Total life income funds**: $2,060,000, $1,755,000

**Total annuity and life income funds**: $5,375,000, $4,810,000

### Plant Funds

#### Unexpended
- **Cash**: $275,000, $410,000
- **Investments**: $1,285,000, $1,590,000
- **Due from unrestricted current funds**: $150,000, $120,000
- **Total unexpended**: $1,710,000, $2,120,000

#### Renewals and replacements
- **Cash**: $5,000, $4,000
- **Investments**: $150,000, $286,000
- **Deposits with trustees**: $100,000, $90,000
- **Due from unrestricted current funds**: $5,000
- **Total renewals and replacements**: $260,000, $380,000

#### Retirement of indebtedness
- **Cash**: $50,000, $40,000
- **Deposits with trustees**: $250,000, $253,000
- **Total retirement of indebtedness**: $300,000, $293,000

#### Investment in plant
- **Land**: $500,000, $500,000
- **Land improvements**: $1,000,000, $1,110,000
- **Buildings**: $25,000,000, $24,060,000
- **Equipment**: $15,000,000, $14,200,000
- **Library books**: $100,000, $80,000
- **Total investment in plant**: $41,600,000, $39,950,000
- **Total plant funds**: $43,870,000, $42,743,000

### Agency Funds
- **Cash**: $50,000, $70,000
- **Investments**: $60,000, $20,000
- **Total agency funds**: $110,000, $90,000

**See accompanying Summary of Significant Accounting Policies and Notes to Financial Statements**
## Statement of Changes in Fund Balances

**Year Ended June 30, 19___**

<table>
<thead>
<tr>
<th>Current Funds</th>
<th>Loan Funds</th>
<th>Endowment and Similar Funds</th>
<th>Annuity and Life Income Funds</th>
<th>Retirement of Indebtedness</th>
<th>Investment in Plant</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Unrestricted</td>
<td>Restricted</td>
<td>Unexpend</td>
<td>Unexpend</td>
<td>Unexpend</td>
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<tr>
<td><strong>Revenues and other additions</strong></td>
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<tr>
<td>Unrestricted current fund revenues</td>
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<tr>
<td>Expired term endowment—restricted</td>
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<tr>
<td>State appropriations—restricted</td>
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<tr>
<td>Federal grants and contracts—restricted</td>
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<tr>
<td>Private gifts, grants, and contracts—restricted</td>
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<tr>
<td>Investment income—restricted</td>
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<tr>
<td>Realized gains on investments—unrestricted</td>
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<tr>
<td>Interest on loans receivable</td>
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<tr>
<td>U.S. government advances</td>
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<tr>
<td>Expended for plant facilities (including $100,000 charged to current funds expenditures)</td>
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<tr>
<td>Retirement of indebtedness</td>
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<td>Accrued interest on sale of bonds</td>
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<tr>
<td>Matured annuity and life income restricted to endowment</td>
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<tr>
<td><strong>Total revenues and other additions</strong></td>
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<tr>
<td><strong>Expenditures and other deductions</strong></td>
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<tr>
<td>Educational and general expenditures</td>
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<tr>
<td>Auxiliary enterprises expenditures</td>
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<td>Indirect costs recovered</td>
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<tr>
<td>Refunded to grantors</td>
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<tr>
<td>Loan cancellations and write-offs</td>
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<tr>
<td>Administrative and collection costs</td>
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<tr>
<td>Adjustment of actuarial liability for annuities payable</td>
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<tr>
<td>Expended for plant facilities (including noncapitalized expenditures of $50,000)</td>
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<tr>
<td>Retirement of indebtedness</td>
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<tr>
<td>Interest on indebtedness</td>
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<tr>
<td>Disposal of plant facilities</td>
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<tr>
<td>Expired term endowments ($40,000 unrestricted, $50,000 restricted to plant)</td>
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<td>Matured annuity and life income funds restricted to endowment</td>
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<tr>
<td><strong>Total expenditures and other deductions</strong></td>
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</tr>
</tbody>
</table>

<p>| <strong>Exhibit 2</strong> | |
|---------------| |
| <strong>Current Funds</strong> | | | | | | | | | | | | |</p>
<table>
<thead>
<tr>
<th>Current Funds</th>
<th>Unrestricted</th>
<th>Restricted</th>
<th>Loan Funds</th>
<th>Endowment and Similar Funds</th>
<th>Annuity and Life Income Funds</th>
<th>Retirement of Indebtedness</th>
<th>Investment in Plant</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenues and other additions</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Unrestricted current fund revenues</td>
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<td>Expired term endowment—restricted</td>
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</tr>
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<tr>
<td>Federal grants and contracts—restricted</td>
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<td>800,000</td>
<td>115,000</td>
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<td>10,000</td>
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<td>Investment income—restricted</td>
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<td></td>
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<tr>
<td>Realized gains on investments—unrestricted</td>
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<tr>
<td>Interest on loans receivable</td>
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</tr>
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<td>U.S. government advances</td>
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<td></td>
<td></td>
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<td></td>
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</tr>
<tr>
<td>Expended for plant facilities (including $100,000 charged to current funds expenditures)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Retirement of indebtedness</td>
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<td></td>
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</tr>
<tr>
<td>Accrued interest on sale of bonds</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Matured annuity and life income restricted to endowment</td>
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<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total revenues and other additions</strong></td>
<td>$7,540,000</td>
<td>$1,094,000</td>
<td>$141,000</td>
<td>$1,679,000</td>
<td>$800,000</td>
<td>$230,000</td>
<td>$10,000</td>
</tr>
<tr>
<td><strong>Expenditures and other deductions</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Educational and general expenditures</td>
<td>4,400,000</td>
<td>1,014,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Auxiliary enterprises expenditures</td>
<td>5,000</td>
<td>1,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Indirect costs recovered</td>
<td>20,000</td>
<td>10,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Refunded to grantors</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Loan cancellations and write-offs</td>
<td>1,000</td>
<td>1,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Administrative and collection costs</td>
<td>1,000</td>
<td>1,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Adjustment of actuarial liability for annuities payable</td>
<td>75,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Expended for plant facilities (including noncapitalized expenditures of $50,000)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Retirement of indebtedness</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest on indebtedness</td>
<td>1,200,000</td>
<td>300,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Disposal of plant facilities</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Expired term endowments ($40,000 unrestricted, $50,000 restricted to plant)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Matured annuity and life income funds restricted to endowment</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total expenditures and other deductions</strong></td>
<td>6,230,000</td>
<td>1,069,000</td>
<td>12,000</td>
<td>90,000</td>
<td>85,000</td>
<td>1,200,000</td>
<td>300,000</td>
</tr>
</tbody>
</table>
### Transfers among funds—additions/(deductions)

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Principal and interest</td>
<td>(340,000)</td>
</tr>
<tr>
<td>Renewals and replacements</td>
<td>(170,000)</td>
</tr>
<tr>
<td>Loan fund matching grant</td>
<td>(2,000)</td>
</tr>
<tr>
<td>Unrestricted gifts allocated</td>
<td>(650,000)</td>
</tr>
<tr>
<td>Portion of unrestricted quasi-endowment funds</td>
<td>(40,000)</td>
</tr>
<tr>
<td>Total transfers</td>
<td>(1,122,000)</td>
</tr>
</tbody>
</table>

#### Net increase/(decrease) for the year

<table>
<thead>
<tr>
<th>Net increase/(decrease) for the year</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>188,000</td>
<td>2,099,000</td>
</tr>
<tr>
<td>455,000</td>
<td>11,901,000</td>
</tr>
<tr>
<td>643,000</td>
<td>14,000,000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Fund balance at beginning of year</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1,200,000</td>
<td>2,120,000</td>
</tr>
<tr>
<td>446,000</td>
<td>1,122,000</td>
</tr>
<tr>
<td>683,000</td>
<td>421,000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Fund balance at end of year</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>300,000</td>
<td>421,000</td>
</tr>
<tr>
<td>260,000</td>
<td>1,122,000</td>
</tr>
<tr>
<td>14,000,000</td>
<td>1,122,000</td>
</tr>
</tbody>
</table>

See accompanying Summary of Significant Accounting Policies and Notes to Financial Statements
Sample Educational Institution

Statement of Current Funds Revenues, Expenditures, and Other Changes

Year Ended June 30, 19__

<table>
<thead>
<tr>
<th>Revenues</th>
<th>Current Year</th>
<th>Total</th>
<th>Prior Year Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tuition and fees</td>
<td>$2,600,000</td>
<td>$2,600,000</td>
<td>$2,300,000</td>
</tr>
<tr>
<td>Federal appropriations</td>
<td>500,000</td>
<td>500,000</td>
<td>500,000</td>
</tr>
<tr>
<td>State appropriations</td>
<td>700,000</td>
<td>700,000</td>
<td>700,000</td>
</tr>
<tr>
<td>Local appropriations</td>
<td>100,000</td>
<td>100,000</td>
<td>100,000</td>
</tr>
<tr>
<td>Federal grants and contracts</td>
<td>20,000</td>
<td>$375,000</td>
<td>395,000</td>
</tr>
<tr>
<td>State grants and contracts</td>
<td>10,000</td>
<td>25,000</td>
<td>35,000</td>
</tr>
<tr>
<td>Local grants and contracts</td>
<td>5,000</td>
<td>25,000</td>
<td>30,000</td>
</tr>
<tr>
<td>Private gifts, grants, and contracts</td>
<td>850,000</td>
<td>380,000</td>
<td>1,230,000</td>
</tr>
<tr>
<td>Endowment income</td>
<td>325,000</td>
<td>209,000</td>
<td>534,000</td>
</tr>
<tr>
<td>Sales and services of educational departments</td>
<td>190,000</td>
<td>190,000</td>
<td>195,000</td>
</tr>
<tr>
<td>Sales and services of auxiliary enterprises</td>
<td>2,200,000</td>
<td>2,200,000</td>
<td>2,100,000</td>
</tr>
<tr>
<td>Expired term endowment</td>
<td>40,000</td>
<td>40,000</td>
<td></td>
</tr>
<tr>
<td>Other sources (if any)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total current revenues</td>
<td>7,540,000</td>
<td>1,014,000</td>
<td>8,554,000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Expenditures and mandatory transfers</th>
<th>Current Year</th>
<th>Total</th>
<th>Prior Year Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Educational and general</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Instruction</td>
<td>2,960,000</td>
<td>489,000</td>
<td>3,449,000</td>
</tr>
<tr>
<td>Research</td>
<td>100,000</td>
<td>400,000</td>
<td>500,000</td>
</tr>
<tr>
<td>Public service</td>
<td>130,000</td>
<td>25,000</td>
<td>155,000</td>
</tr>
<tr>
<td>Academic support</td>
<td>250,000</td>
<td>250,000</td>
<td>225,000</td>
</tr>
<tr>
<td>Student services</td>
<td>200,000</td>
<td>200,000</td>
<td>195,000</td>
</tr>
<tr>
<td>Institutional support</td>
<td>450,000</td>
<td>450,000</td>
<td>445,000</td>
</tr>
<tr>
<td>Operation and maintenance of plant</td>
<td>220,000</td>
<td>220,000</td>
<td>200,000</td>
</tr>
<tr>
<td>Scholarships and fellowships</td>
<td>90,000</td>
<td>100,000</td>
<td>190,000</td>
</tr>
<tr>
<td>Educational and general expenditures</td>
<td>4,400,000</td>
<td>1,014,000</td>
<td>5,414,000</td>
</tr>
<tr>
<td>Mandatory transfers for:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Principal and interest</td>
<td>90,000</td>
<td>90,000</td>
<td>50,000</td>
</tr>
<tr>
<td>Renewals and replacements</td>
<td>100,000</td>
<td>100,000</td>
<td>80,000</td>
</tr>
<tr>
<td>Loan fund matching grant</td>
<td>2,000</td>
<td>2,000</td>
<td></td>
</tr>
<tr>
<td>Total educational and general</td>
<td>4,592,000</td>
<td>1,014,000</td>
<td>5,606,000</td>
</tr>
</tbody>
</table>
### Auxiliary enterprises

<table>
<thead>
<tr>
<th>Item</th>
<th>Year 1</th>
<th>Year 2</th>
<th>Year 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expenditures</td>
<td>1,830,000</td>
<td>1,830,000</td>
<td>1,730,000</td>
</tr>
<tr>
<td>Mandatory transfers for:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Principal and interest</td>
<td>250,000</td>
<td>250,000</td>
<td>250,000</td>
</tr>
<tr>
<td>Renewals and replacements</td>
<td>70,000</td>
<td>70,000</td>
<td>70,000</td>
</tr>
<tr>
<td>Total auxiliary enterprises</td>
<td>2,150,000</td>
<td>2,150,000</td>
<td>2,050,000</td>
</tr>
<tr>
<td>Total expenditures and mandatory transfers</td>
<td>6,742,000</td>
<td>1,014,000</td>
<td>7,756,000</td>
</tr>
</tbody>
</table>

### Other transfers and additions/(deductions)

<table>
<thead>
<tr>
<th>Item</th>
<th>Year 1</th>
<th>Year 2</th>
<th>Year 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Excess of restricted receipts over transfers to revenues</td>
<td>45,000</td>
<td>45,000</td>
<td>40,000</td>
</tr>
<tr>
<td>Refunded to grantors</td>
<td>(20,000)</td>
<td>(20,000)</td>
<td></td>
</tr>
<tr>
<td>Unrestricted gifts allocated to other funds</td>
<td>(650,000)</td>
<td>(650,000)</td>
<td>(510,000)</td>
</tr>
<tr>
<td>Portion of quasi-endowment gains appropriated</td>
<td>40,000</td>
<td>40,000</td>
<td></td>
</tr>
<tr>
<td>Net increase in fund balances</td>
<td>188,000</td>
<td>25,000</td>
<td>213,000</td>
</tr>
</tbody>
</table>

*See accompanying Summary of Significant Accounting Policies and Notes to Financial Statements*
Sample Educational Institution

Summary of Significant Accounting Policies

June 30, 19........

The significant accounting policies followed by Sample Educational Institution are described below to enhance the usefulness of the financial statements to the reader.

**ACCRUAL BASIS**

The financial statements of Sample Educational Institution have been prepared on the accrual basis except for depreciation accounting as explained in notes 1 and 2 to the financial statements. The statement of current funds revenues, expenditures, and other changes is a statement of financial activities of current funds related to the current reporting period. It does not purport to present the results of operations or the net income or loss for the period as would a statement of income or a statement of revenues and expenses.

To the extent that current funds are used to finance plant assets, the amounts so provided are accounted for as (1) expenditures, in the case of normal replacement of movable equipment and library books; (2) mandatory transfers, in the case of required provisions for debt amortization and interest and equipment renewal and replacement; and (3) transfers of a nonmandatory nature for all other cases.

**FUND ACCOUNTING**

In order to ensure observance of limitations and restrictions placed on the resources available to the Institution, the accounts of the Institution are maintained in accordance with the principles of "fund accounting." This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into funds that are in accordance with activities or objectives specified. Separate accounts are maintained for each fund; however, in the accompanying financial statements, funds that have similar characteristics have been combined into fund groups. Accordingly, all financial transactions have been recorded and reported by fund group.

Within each fund group, fund balances restricted by outside sources are so indicated and are distinguished from unrestricted funds allocated to specific purposes by action of the governing board. Externally restricted funds may only be utilized in accordance with the purposes established by the source of such funds and are in contrast with unrestricted funds over which the governing board retains full control to use in achieving any of its institutional purposes.

Endowment funds are subject to the restrictions of gift instruments requiring in perpetuity that the principal be invested and the income only be utilized. Term endowment funds are similar to endowment funds except that upon the passage of a stated period of time or the occurrence of a particular event, all or part of the principal may be expended. While quasi-endowment funds have been established by the governing board for the same purposes as endowment funds, any portion of quasi-endowment funds may be expended.

All gains and losses arising from the sale, collection, or other disposition of investments and other noncash assets are accounted for in the fund which owned such assets. Ordinary income derived from investments, receivables, and the like is accounted for in the fund owning such assets, except for income derived from investments of endowment and similar funds, which income is accounted for in the fund to which it is restricted or, if unrestricted, as revenues in unrestricted current funds.

All other unrestricted revenue is accounted for in the unrestricted current fund. Restricted gifts, grants, appropriations, endowment income, and other restricted resources are accounted for in the appropriate restricted funds. Restricted current funds are reported as revenues and expenditures when expended for current operating purposes.

**OTHER SIGNIFICANT ACCOUNTING POLICIES**

Other significant accounting policies are set forth in the financial statements and the notes thereto.
Sample Educational Institution
Notes to Financial Statements
June 30, 19........

1. Investments exclusive of physical plant are recorded at cost; investments received by gift are carried at market value at the date of acquisition. Quoted market values of investments (all marketable securities) of the funds indicated were as follows:

<table>
<thead>
<tr>
<th>Funds</th>
<th>Current year</th>
<th>Prior year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unrestricted current funds</td>
<td>$ 510,000</td>
<td>$ 390,000</td>
</tr>
<tr>
<td>Restricted current funds</td>
<td>180,000</td>
<td>165,000</td>
</tr>
<tr>
<td>Loan funds</td>
<td>105,000</td>
<td>105,000</td>
</tr>
<tr>
<td>Unexpended plant funds</td>
<td>1,287,000</td>
<td>1,600,000</td>
</tr>
<tr>
<td>Renewal and replacement funds</td>
<td>145,000</td>
<td>285,000</td>
</tr>
<tr>
<td>Agency funds</td>
<td>60,000</td>
<td>20,000</td>
</tr>
</tbody>
</table>

Investments of endowment and similar funds and annuity and life income funds are composed of the following:

<table>
<thead>
<tr>
<th>Funds</th>
<th>Carrying value</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Current year</td>
</tr>
<tr>
<td>Endowment and similar funds:</td>
<td></td>
</tr>
<tr>
<td>Corporate stocks and bonds</td>
<td></td>
</tr>
<tr>
<td>(approximate market, current year $15,000,000, prior year $10,900,000)</td>
<td>$13,000,000</td>
</tr>
<tr>
<td>Rental properties—less accumulated depreciation, current year $500,000, prior year $400,000</td>
<td>900,000</td>
</tr>
<tr>
<td></td>
<td>13,900,000</td>
</tr>
<tr>
<td>Annuity funds:</td>
<td></td>
</tr>
<tr>
<td>U.S. bonds</td>
<td></td>
</tr>
<tr>
<td>(approximate market, current year $200,000, prior year $100,000)</td>
<td>200,000</td>
</tr>
<tr>
<td>Corporate stocks and bonds</td>
<td></td>
</tr>
<tr>
<td>(approximate market, current year $3,070,000, prior year $2,905,000)</td>
<td>3,060,000</td>
</tr>
<tr>
<td></td>
<td>3,260,000</td>
</tr>
<tr>
<td>Life income funds:</td>
<td></td>
</tr>
<tr>
<td>Municipal bonds</td>
<td></td>
</tr>
<tr>
<td>(approximate market, current year $1,400,000, prior year $1,340,000)</td>
<td>1,500,000</td>
</tr>
<tr>
<td>Corporate stocks and bonds</td>
<td></td>
</tr>
<tr>
<td>(approximate market, current year $650,000, prior year $400,000)</td>
<td>545,000</td>
</tr>
<tr>
<td></td>
<td>2,045,000</td>
</tr>
</tbody>
</table>

Assets of endowment funds, except nonmarketable investments of term endowment having a book value of $200,000 and quasi-endowment having a book value of $800,000, are pooled on a market value basis, with each individual fund subscribing
to or disposing of units on the basis of the value per unit at market value at the beginning of the calendar quarter within which the transaction takes place. Of the total units each having a market value of $15.00, 600,000 units were owned by endowment, 280,000 units by term endowment, and 120,000 units by quasi-endowment at June 30, 19........

The following tabulation summarizes changes in relationships between cost and market values of the pooled assets:

<table>
<thead>
<tr>
<th>Pooled Assets</th>
<th>Net Gains (Losses)</th>
<th>Market Value per Unit</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Market</strong></td>
<td><strong>Cost</strong></td>
<td><strong>Unit</strong></td>
</tr>
<tr>
<td>End of year</td>
<td>$15,000,000</td>
<td>$13,000,000</td>
</tr>
<tr>
<td>Beginning of year</td>
<td>10,900,000</td>
<td>10,901,000</td>
</tr>
<tr>
<td>Unrealized net gains for year</td>
<td>2,001,000</td>
<td></td>
</tr>
<tr>
<td>Realized net gains for year</td>
<td>159,000</td>
<td></td>
</tr>
<tr>
<td>Total net gains for year</td>
<td>$2,160,000</td>
<td>2.30</td>
</tr>
</tbody>
</table>

The average annual earnings per unit, exclusive of net gains, were $.56 for the year.

2. Physical plant and equipment are stated at cost at date of acquisition or fair value at date of donation in the case of gifts, except land acquired prior to 1940, which is valued at appraisal value in 1940 at $300,000. Depreciation on physical plant and equipment is not recorded.

3. Long-term debt includes: bonds payable due in annual installments varying from $45,000 to $55,000 with interest at 5\% \%, the final installment being due in 19........, collateralized by trust indenture covering land, buildings, and equipment known as Smith dormitory carried in the accounts at $2,500,000, and pledged net revenue from the operations of said dormitory; and mortgages payable due in varying amounts to 19........ with interest at 6\%, collateralized by property carried in the accounts at $800,000 and pledged revenue of the Student Union amounting to approximately $65,000 per year.

4. The Institution has certain contributory pension plans for academic and nonacademic personnel. Total pension expense for the year was $350,000, which includes amortization of prior service cost over a period of 20 years. The Institution's policy is to fund pension costs accrued, including periodic funding of prior years' accruals not previously funded. The actuarially computed value of vested benefits as of June 30, 19........ exceeded net assets of the pension fund by approximately $300,000.

5. Contracts have been let for the construction of additional classroom buildings in the amount of $3,000,000. Construction and equipment are estimated to aggregate $5,000,000, which will be financed by available resources and an issue of bonds payable over a period of 40 years amounting to $4,000,000.

6. All interfund borrowings have been made from unrestricted funds. The amounts due to plant funds from current unrestricted funds are payable within one year without interest. The amount due to loan funds from current unrestricted funds is payable currently.

7. Pledges totaling $260,000, restricted to plant fund uses, are due to be collected over the next three fiscal years in the amounts of $120,000, $80,000, and $60,000, respectively. It is not practicable to estimate the net realizable value of such pledges.
Chart of Accounts

A systematic classification of accounts is an essential part of an accounting system. The accounts should be developed to be compatible with the organizational structure of the institution, and their form and content should be arranged in agreement with the financial reports to be presented.

The arrangement should be formalized in a chart of accounts, and for ease of identification and reference, each account should be assigned an appropriate code number or symbol. Classification should be according to the funds and fund groups of the institution, as described in the preceding chapters of Part 5. Within each fund group, the accounts should be listed according to assets, liabilities, and fund balance accounts.

The illustrative chart of accounts for a college or university presented below shows those accounts usually found in the general ledger or carried in subsidiary ledgers with appropriate control accounts in the general ledger. This chart is presented as a guide for institutions in developing their own detailed charts of accounts and to help them set up their accounts in conformity with the principles of accounting and reporting presented in the preceding chapters of Part 5. The system of accounts may be expanded, contracted, or modified to meet the needs of the individual institution and to conform to its organizational structure, but in any case it should incorporate the basic elements common to all educational institutions.

In designing or revising a chart of accounts, the code numbers or symbols assigned to the accounts should progress in a logical order. Because each fund and fund group is carried in the accounting records as a separately balanced group, the accounts in any given group should be assigned a code number that, perhaps by a prefix, identifies that fund group—for example, all accounts related to current funds should be identifiable as such; all accounts for plant funds should be identifiable as such. Similarly, within the fund groups, consistent code numbers should identify subgroups, assets, liabilities, and fund balances. For revenue accounts, code numbers or symbols can be used to identify sources. For expenditure accounts, code numbers or symbols can be used to identify functions, organizational units, projects, programs, and objects of expenditures. The individual fund identity should be an integral part of the fund balance, revenue, and expenditure account codes.

In developing a chart of accounts, it is important to exercise economy in the use of digits and characters for code numbers, to plan a logical arrangement for the chart, and to make ample provision for future expansion of account numbers.
General Ledger Accounts

Current Funds—Unrestricted

Asset Accounts

Cash
Petty Cash
Investments
Accounts Receivable—detailed as needed, for example:
  Students
  Hospital Patients
  Governmental
  Unbilled Charges
Notes Receivable—detailed as needed
  Allowance for Doubtful Accounts and Notes—credit balance account associated
  with each type of receivable
Inventories—detailed as needed, for example:
  College Store
  Dining Halls
  Central Stores
  Plant Operation and Maintenance Supply Store
Prepaid Items and Deferred Charges—detailed as needed
Due from Other Fund Groups

Liability and Fund Balance Accounts

Notes Payable
Accounts Payable and Accrued Expenses—detailed as needed
Deferred Credits
Deposits
Due to Other Fund Groups
Fund Balances—Allocated—detailed as needed, for example:
  Auxiliary Enterprises
  Reserve for Encumbrances
  Reserve for Computer Use Survey
  Reserve for Faculty Self-Improvement Program
Fund Balance—Unallocated

Operating Accounts. The following control accounts in the general ledger for actual revenues, expenditures, and other changes are supported in detail by Current Funds Revenues and Current Funds Expenditures and Other Changes accounts in subsidiary ledgers. If desired, several control accounts may be provided in lieu of single control accounts:

  Revenues Control—credit account
  Expenditures and Other Changes Control—debit account

When budgetary accounts are carried in the general ledger, the following control accounts would appear in the chart of accounts. They are supported in detail by Current Funds Revenues and Current Funds Expenditures and Other Changes accounts in subsidiary ledgers:

  Estimated Revenues or Unrealized Revenues
  Expenditures and Other Changes Allocations or Budget Allocations for Expenditures and Other Changes
  Unallocated Budget Balance or Unassigned Budget Balance

Current Funds—Restricted

These accounts are to be used if the assets and liabilities of such funds are separated from those of Unrestricted Current Funds.
Asset Accounts
Cash
Investments
Accounts Receivable—detailed as needed, for example:
  Governmental
  Other
  Unbilled Charges
Allowance for Doubtful Accounts—credit balance account
Due from Other Fund Groups

Liability and Fund Balance Accounts
Accounts Payable
Due to Other Fund Groups
Fund Balances—Allocated—detailed as needed, for example:
  Reserve for Encumbrances
  Auxiliary Enterprises
Fund Balances—Unallocated
  Both of the fund balance accounts may be control accounts supported by separate subsidiary ledger accounts for each restricted current fund and for each type of fund balance. Additional control accounts may be provided as required or desired.

Operating Accounts. Expenditures of restricted current funds may be recorded in the operating accounts of unrestricted current funds, in which case transfers of restricted current funds to current funds revenues accounts would be made to finance such expenditures. When this is not done, operating accounts for each current restricted fund must provide for proper classification of expenditures by object, as well as providing for appropriate categorization of sources of additions, deductions other than expenditures, and transfers to and from other funds.

Loan Funds
Asset Accounts
Cash
Investments
Notes Receivable from Students, Faculty, and Staff
  Allowance for Doubtful Loans—credit balance account

Liability and Fund Balance Accounts
Accounts Payable to Collection Agencies
Due to Other Fund Groups
Refunds Payable on Refundable Government Grants
Fund Balances—This may be a control account supported by separate subsidiary ledger accounts for each fund. Separate accounts should be carried to identify the sources of funds available for loans, such as donor- and government-restricted loan funds, including funds provided by mandatory transfers required for matching purposes, unrestricted funds designated as loan funds, and funds returnable to the donor under certain conditions. Accounts to identify allocations of fund balances should be provided. Accounts may be maintained to identify resources available for loans to students separately from those for faculty and staff.

Endowment and Similar Funds
Asset Accounts
Cash
Accounts Receivable
Notes Receivable
  Allowance for Doubtful Accounts and Notes—credit balance account
Prepaid Items
Investments—detailed as needed, for example:
- Bonds
  - Allowance for Unamortized Bond Premiums
  - Allowance for Unamortized Bond Discounts
- Preferred Stocks
- Common Stocks
- Mortgage Notes
- Real Estate
- Allowance for Depreciation—credit balance account
- Due from Other Fund Groups

Liability and Fund Balance Accounts

The fund balance accounts should be classified as to Endowment, Term Endowment, and Quasi-Endowment Funds, even though the investments of the funds may be merged in one or more investment pools.

Payables—detailed as needed, for example:
- Mortgages Payable
- Notes Payable
- Accounts Payable
- Collateral Due on Securities Loaned
- Due to Other Fund Groups
- Balances of Endowment Funds
- Balances of Term Endowment Funds
- Balances of Quasi-Endowment Funds—Unrestricted
- Balances of Quasi-Endowment Funds—Restricted

In order to differentiate between the balances of funds for which the income is unrestricted and those for which the income is restricted, the following accounts may be employed:
- Balances of Endowment Funds—Unrestricted
- Balances of Endowment Funds—Restricted—detailed as needed, for example:
  - Professorships
  - Instructional Departments
  - Scholarships
  - Library
  - Loan Funds

Note. The balances of term endowment funds also may be identified in this manner.

Undistributed Gains and Losses on Investment Transactions—Separate accounts should be established for each investment pool.

Undistributed Share Adjustments—Separate accounts should be established for each investment pool.

Annuity and Life Income Funds

If the funds in this section are pooled for investment purposes, accounts for the assets may be classified as shown below for each investment pool. If any funds are separately invested, accounts should be set up for the investment of such funds.

Asset Accounts

- Cash
- Accounts Receivable
- Notes Receivable
  - Allowance for Doubtful Accounts and Notes—credit balance account
- Investments—detailed as needed, for example:
  - Bonds
    - Allowance for Unamortized Bond Premiums
    - Allowance for Unamortized Bond Discounts
  - Preferred Stocks
  - Common Stocks
Mortgage Notes
Real Estate
  Allowance for Depreciation—credit balance account
Due from Other Fund Groups

**Liability and Fund Balance Accounts**
Accounts Payable
Annuity Payments Currently Due
Annuities Payable
Life Income Payments Currently Due
Due to Other Funds for Advances on Annuity Payments
Due to Other Funds for Advances to Income Beneficiaries
Undistributed Income—Annuity Funds
Undistributed Income—Life Income Funds
Balances of Annuity Funds
Balances of Life Income Funds
  These may be control accounts supported by subsidiary ledger accounts for each fund. Within the two categories the accounts may be listed alphabetically by name, or they may be classified in any other manner at the discretion of the institution.

Undistributed Gains and Losses on Investment Transactions—Separate accounts should be established for each investment pool.
Undistributed Share Adjustments—Separate accounts should be established for each investment pool.

Income, Expenditure, and Transfer Accounts
Income from Investments—credit account, detailed by each agreement
Expenditures and Transfers—debit account, detailed by each agreement

**Plant Funds—Unexpended**

**Asset Accounts**
Cash
Investments
Receivables—detailed as needed
  Allowance for Doubtful Accounts—credit balance account
Due from Other Fund Groups
Construction in Progress—alternatively can be shown in Investment in Plant sub-group of Plant Funds

**Liability and Fund Balance Accounts**
Accounts Payable
Notes Payable
Bonds Payable
Mortgages Payable
Due to Other Fund Groups
Fund Balances—This may be a control account supported by subsidiary ledger accounts which should differentiate between unrestricted and restricted funds.

**Plant Funds—Funds for Renewals and Replacements**
These accounts should be used if the assets of such funds are separated from the assets of other subgroups of Plant Funds.

**Asset Accounts**
Cash
Accounts Receivable
  Allowance for Doubtful Accounts—credit balance account
Investments
Deposits with Trustees
Due from Other Fund Groups
Liability and Fund Balance Accounts
Accounts Payable
Due to Other Fund Groups
Fund Balances—This may be a control account supported by subsidiary ledger accounts which should differentiate between unrestricted and restricted funds.

Plant Funds—Funds for Retirement of Indebtedness
These accounts should be used if the assets of such funds are separated from the assets of other subgroups of Plant Funds.

Asset Accounts
Cash
Accounts and Notes Receivable
   Allowance for Doubtful Accounts—credit balance account
Investments
Deposits with Trustees
Due from Other Fund Groups

Liability and Fund Balance Accounts
Accounts Payable
Due to Other Fund Groups
Fund Balances—This may be a control account supported by subsidiary ledger accounts which should differentiate between unrestricted and restricted funds.

Plant Funds—Investment in Plant

Asset Accounts
Land
Buildings
   Allowance for Depreciation—credit balance account
Improvements Other than Buildings
   Allowance for Depreciation—credit balance account
Equipment
   Allowance for Depreciation—credit balance account
Library Books
Art Museums and Collections
Construction in Progress—alternatively can be shown in the Unexpended Plant Funds subgroup of Plant Funds

Liability and Fund Balance Accounts
Accounts Payable
Notes Payable
Bonds Payable
Mortgages Payable
Leaseholds Payable
Due to Other Fund Groups
Net Investment in Plant—detailed as needed

Agency Funds

Asset Accounts
Cash
Accounts Receivable
Notes Receivable
   Allowance for Doubtful Accounts and Notes—credit balance account
Investments
Due from Other Fund Groups
Liability Accounts
Accounts Payable
Due to Other Fund Groups
Deposit Liabilities—Accounts for each agency fund should be carried either in the
general ledger or in subsidiary ledgers.

Current Funds Revenues Accounts
(Separate Restricted and Unrestricted Accounts)

Tuition and Fees—detailed as needed

Federal Appropriations

State Appropriations

Local Appropriations

Federal Grants and Contracts

State Grants and Contracts

Local Grants and Contracts

Private Gifts, Grants, and Contracts—detailed as needed

Endowment Income—detailed as needed, for example:
Income from Funds Held by Others Under Irrevocable Trusts

Sales and Services of Educational Activities—detailed as needed, for example:
Film Rentals
Testing Services
Home Economics Cafeteria
Demonstration Schools
Dairy Creameries
Food Technology Divisions

Sales and Services of Auxiliary Enterprises—detailed as needed, for example:
Residence Halls
Faculty Housing
Food Services
College Union
Additional revenue accounts may be established for sources of sales, types of products
and services, and cash and interdepartmental sales.

Sales and Services of Hospitals—detailed as needed, for example:
Daily Patient Services
Nursing Services
Other Professional Services
Health Clinics if an integral part of the hospital

Other Sources—detailed as needed

Independent Operations—detailed as needed by organizational units
Current Funds Expenditures and Transfers Accounts

Current funds expenditures accounts should bear identifying codes and symbols that will identify functions, such as Instruction, Institutional Support, and Scholarships and Fellowships; identify organizational units, such as Department of Physics, Controller's Office, and Registrar's Office; and identify the object of expenditures, such as Personnel Compensation, Supplies and Expenses, and Capital Expenditures. If desired, interdepartmental purchases, as contrasted with purchases from external sources, also may be identified by code or symbol. The object coding and symbols should be designed to provide for common usage of the objects throughout the entire chart of accounts, although, of course, there will be individual object codings that will be used only for particular functional categories.

Educational and General

Instruction
Accounts by divisions, schools, colleges, and departments of instruction following the administrative organization of the institution. The four functional subcategories are:
- General academic instruction
- Occupational and vocational instruction
- Special session instruction
- Community education

Research
Accounts by individual projects, classified by organizational units. The two functional subcategories are:
- Institutes and research centers
- Individual or project research

Public Service
Accounts by activities, classified by type of activity, such as:
- Community Service
- Conferences and Institutes
- Cooperative Extension Service
- Public Lectures
- Radio
- Television

Academic Support
Accounts by activities, classified by type of activity, such as:
- Academic Administration and Personnel Development
- Audiovisual Services
- Computing Support (excluding administrative data processing), unless distributed to using activities
- Course and Curriculum Development
- Demonstration Schools
- Libraries
- Museums and Galleries

Student Services
Accounts by activities, classified by type of activity, such as:
- Admissions Office
- Counseling and Career Guidance
- Cultural Events
- Dean of Students
Financial Aid Administration
Health and Infirmary Services if not an integral part of a hospital nor operated as an essentially self-supporting operation
Intramural Athletics
Intercollegiate Athletics if operated as an integral part of department of physical education and not essentially self-supporting
Registrar
Student Organizations
Remedial Instruction

Institutional Support—detailed as needed, for example:

Governing Board
Chief Executive Office
Chief Academic Office
Chief Business Office
Investment Office
Legal Counsel
Administrative Data Processing
Alumni Office
Auditing, internal and external
Safety
Security
Catalogues and Bulletins
Commencements
Convocations
Development Office
Employee Personnel and Records
Fund Raising
General Insurance other than Property Insurance
Interest on Current Funds Loans
Legal Fees
Memberships
Printing
Provision for Doubtful Accounts and Notes
Publications
Public Relations
Purchasing
Service Departments
    There should be interim accounts for all organizational units classified in this category; these accounts should be closed out at the end of each fiscal year.
Space Management
Telephone and Telegraph unless charged to departmental budgets
Transportation including motor pool, unless operated as a service department

Operation and Maintenance of Plant

Accounts for all organizational units and functions, such as:
Administration
Custodial Services
Maintenance of Buildings
Maintenance of Grounds
Utilities
Trucking Services
Fire Protection
Property Insurance
Scholarships and Fellowships

Accounts as needed and desired for scholarships, fellowships, grants-in-aid, trainee stipends, prizes, and awards.

Tuition and Fee Remissions unless properly classified as staff benefit expenditures

Accounts may be set up for instructional divisions and departments, such as:
School of Medicine
Department of Physics

Mandatory Transfers, Educational and General—detailed to show subcategories, such as:
- Provision for Debt Service on Educational Plant
- Loan Fund Matching Grants

Nonmandatory Transfers, Educational and General (to and from)—detailed to show significant subcategories, such as:
- Loan Funds
- Quasi-Endowment Funds
- Appreciation on Securities of Endowment and Similar Funds
- Plant Funds
  - Renewals and Replacements of Plant Assets
  - Additions to Plant Assets
  - Voluntary Payments on Debt Principal

Auxiliary Enterprises, Hospitals, and Independent Operations

Auxiliary Enterprises

Accounts as needed and desired for such enterprises as included in the Current Funds Revenues accounts.

Provision should be made for identification of mandatory and nonmandatory transfers—to and from—by significant subcategories.

Hospitals

Accounts as needed and desired. Provision should be made for identification of mandatory and nonmandatory transfers—to and from—by significant subcategories.

Independent Operations

Accounts as needed and desired for organizational units.

Provision should be made for identification of mandatory and nonmandatory transfers—to and from—by significant subcategories.
Classification of Expenditures by Object

The object classification of expenditures identifies that which is received in return for the expenditures. Object classification has importance as a tool for internal management, but should be considered complementary to the classification of expenditures by function and organizational unit and should not replace these classifications in the various schedules of current funds expenditures. The value of object classification will depend on the usefulness of the information it provides to management. The classifications may be omitted from published financial reports or they may be used to any degree considered desirable by the institution. The use of object classifications and the related identifying codes and symbols should not be carried to an extreme; the number of categories should be limited to those that will be of significant value to management.

Three major object classifications are found in most colleges and universities: Personnel Compensation, Supplies and Expenses, and Capital Expenditures. Breakdowns of objects within these major categories may be necessary or desirable in some situations.

**Personnel Compensation**

This classification includes salaries, wages, and staff benefits. In the various salary and wage expense accounts, it may be desirable to distinguish between groups of faculty and other staff members, such as full-time and part-time personnel; student and nonstudent workers; and professional, secretarial, clerical, skilled, and nonskilled employees. Appropriate code numbers and symbols within this category will aid in identifying, collecting, and summarizing information.

**Supplies and Expenses**

Because of their general significance to nearly all organizational units within an institution, it may be beneficial to identify significant categories of these expenditures, such as supplies, telephone, travel, and contractual services.

**Capital Expenditures**

The following object categories within this classification (which includes both additions to and renewals and replacements of capital assets) may prove helpful in the accounting and reporting systems of educational institutions: scientific equipment, laboratory apparatus, office machines and equipment, library books, furniture and furnishings, motor vehicles, machinery and tools, building remodeling, minor construction, and livestock.