California Community Colleges

BUDGET AND ACCOUNTING MANUAL

2012 Edition

in accordance with *Education Code* Section 70901 and 59011
for required use by California Community Colleges

Prepared under the direction of the

College Finance and Facilities Planning Division of the Chancellor's Office
California Community Colleges

with the cooperation of the

Association of Chief Business Officials Board

Publishing Information

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The California Community Colleges, *Budget and Accounting Manual* was distributed under the provisions of the Library Distribution Act and *Government Code* Section 11096.

Copies of the manual are available on a limited basis. Requests should be sent to the Chancellor's Office, Fiscal and Business Services Unit, 1102 Q Street, Sacramento, CA 95814-6511. This manual is also available on the Internet at the Chancellor's Office Website at *http://www.cccco.edu/* within the Fiscal Policy Division.

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Preface

This revision of the Budget and Accounting Manual, effective July, 2012 presents primarily technical changes to update and improve the accounting procedures of the California Community Colleges. No new program, nor increased level of district effort is mandated by this revision. Our goal continues to be to make those changes necessary to achieve greater conformance with generally accepted governmental accounting principles, promote greater consistency and validity of reported financial data, and make the manual more useful for all users.

There will always be accounting issues that need to be addressed. Therefore, it is expected that this manual will be periodically revised and updated.

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The following individuals served on the Fiscal Standards and Accountability Committee of the Association of Chief Business Officials (ACBO) Board and were responsible for the review and update of this manual:

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INTRODUCTION

Authority

This *Budget and Accounting Manual* (BAM), which has the authority of regulation in accordance with title 5 Section 59011 of the *California Code of Regulations* (*CCR*), is distributed as part of the Board of Governors' responsibility to define, establish, and maintain the budgeting and accounting structure and procedures for the California Community Colleges. This responsibility is defined in *California Education Code* (*EC*) Section 70901. Each community college district is required to follow this manual in accordance with *Education Code* Section 84030, which states: "The accounting system, including the uniform fund structure used to record the financial affairs of any community college district, shall be in accordance with the definitions, instructions, and procedures published in the California Community Colleges Budget and Accounting Manual..."

Authoritative Requirements

In addition to the legal requirements of the *Education Code, California Code of Regulations*, BAM, federal guidelines, and other applicable statutes and regulations, California Community Colleges are required to present their financial statements in accordance with generally accepted accounting principles (GAAP) for state and local governments. GAAP set the minimum requirements for a fair presentation of financial data in external reports. Since 1984, determination of GAAP for state and local governments has been the responsibility of the Governmental Accounting Standards Board (GASB). For private enterprises and non-profits, including private colleges and universities, GAAP is established by the Financial Accounting Standards Board (FASB) and older pronouncements issued by the American Institute of Certified Public Accountants (AICPA). GAAP provides uniform minimum standard of and guidelines to financial accounting and reporting. They are the framework within which financial transactions are recorded and reported resulting in financial statements that provide comparability between governmental entities, consistency between accounting periods and reliability for internal and external users of financial statements.

The GAAP hierarchy for financial reporting by state and local governments is defined in GASB Statement on Auditing Standard (SAS) No. 69, "The meaning of 'Present Fairly in Conformity with Generally Accepted Accounting Principles' in the Independent Auditors' Report", issued by the AICPA as follows:

Level 1 - GASB Statements and Interpretations, and AICPA and FASB pronouncements made applicable by GASB Statements or Interpretations. GASB Statements and Interpretations are periodically incorporated in the Codification of Governmental Accounting and Financial Reporting Standards.

Level 2 - GASB Technical Bulletins, AICPA Industry Audit and Accounting Guides and Statements of Position specific to Governmental entities made applicable by the AICPA and cleared by the GASB.

Level 3 - GASB Emerging Issue Task Force consensus positions, and AICPA Accounting Standards Executive Committee (AcSEC) Practice Bulletins made applicable by the AICPA and cleared by the GASB. There may be other widely recognized and prevalent practices also incorporated.

Level 4 - GASB Implementation Guides (Q & A's), AICPA Audit and Accounting Guides/Statements of Position (COP's) that are specific to Governmental entities and NOT Cleared by GASB.

Other Sources - GASB Concepts Statements. The Governmental Accounting and Financial Reporting (GAAFR) textbook published by GFOA.

Many groups and individuals need reliable information on a district's finances. An accounting system must meet the basic informational needs of these interested parties. As a result, the accounting system must make it possible to*: (a) present fairly and with full disclosure the financial position and results of financial operations of the governmental unit in conformity with GAAP; and (b) determine and demonstrate compliance with finance-related legal and contractual provisions*. [GASB Codifications Section 1200, NCGA-1]

Neither GAAP nor legal compliance takes 'precedence' in governmental financial statements. Both are essential. When legal provisions conflict with GAAP, governments should prepare basic financial statements in conformity with GAAP and also present such supporting schedules, in addition to the GAAP-based basic financial statements, as may be necessary to clearly report upon their legal compliance responsibilities and accountabilities.

While BAM tries to summarize GAAP for application in California Community Colleges, it may not be a complete and exhaustive text for defining, clarifying, and interpreting all potential situations that may be encountered by every community college or district. It is also limited by the fact that it represents the applicable GAAP at a given point in time. GAAP for local governments is not static but evolving. It is necessary to continually monitor and respond to proposed pronouncements and amend the prescribed guidance in light of new or revised standards. GASB Statements and other changes to GAAP issued after the completion of this manual are not addressed in this document; however, guidance may be provided in subsequent accounting advisories issued by the State Chancellor's Office. These advisories should be referenced in conjunction with the BAM and are incorporated into the BAM periodically as applicable. The following are examples of additional reference materials.

Laws and Regulations

California Education Code (Ed. Code)
California Government Code (CGC)
California Code of Regulations (*CCR*)
Budget and Accounting Manual (Chapters 2-7)

Accounting Principles

Government Finance Officer's Association's *Governmental Accounting and Financial Reporting (GAAFR)* www.gfoa.org

Governmental Accounting Standards Board's *Codification of Governmental Accounting and Financial Reporting Standards* and *Original Pronouncements of Governmental Accounting and Financial Reporting Standards* www.gasb.org

General Information

California Community Colleges Chancellor's Office www.cccco.edu

Objective and Purpose

California community college districts are required by regulations (*CCR §*58300 et seq.) to prepare financial reports and annual budgets that report all their actual and projected revenues and expenditures on forms as provided by the Chancellor's Office. The objective of this *Budget and Accounting Manual* is to facilitate compliance with this requirement by providing for a uniform fund structure, revenue and expenditure classifications, and other accounting procedures for the consistent and comparable reporting of financial data by all community college districts. The manual is primarily written for the individuals who work daily with the community college accounting system; however, this chapter and the general section at the beginning of each of the other chapters have been written to assist those readers who may desire more general background information.

The annual district audit by the contracted district auditor will assess district compliance with this manual.

Background

Although *Education Code* Section 70901(b)(12) mandates the Board of Governors to establish a uniform system of budgeting and accounting for community college districts, prior to September 1981 and the passage of Assembly Bill 1217 (Stats. 1981, Ch. 930), most major accounting decisions were made by the Legislature itself or locally at each district business office. The Board's role in this area was essentially reactive and secondary. Until 1973, community college accounting practices were governed by a publication of the State Department of Education. In December 1973, the Board adopted the first California Community Colleges *Budget and Accounting Manual*. This document was a modification of the K-12 model with the addition of an activity-centered approach to expenditure reporting that described resource requirement and their direct cost, and the relative use in each of the major activities defined for community college operations. The manual established the basic standards for district use.

Since 1973, the *Budget and Accounting Manual* has been subject to some changes and clarifications and was incorporated into title 5 by reference to give it the force of law (*CCR §*59011). The 1985 revision of the *Budget and Accounting Manual* was an effort to update and improve the accounting procedures of the community colleges.

More recently, in 1988 and 1990, reform legislation strengthened the accountability of community college districts. Assembly Bill 1725 (Stats. 1988, Ch. 973) made substantive revisions to the *Education Code*. In 1988, the Council for Chief Business Officers formed a committee to review and update the manual. In so doing, the committee considered changes in the law, the emergence of a statewide management information system, and general cleanup of technical issues. The update was a cooperative effort between district representatives and Chancellor's Office staff and resulted in the 1993 edition of the *Budget and Accounting Manual*. Project 2000 was begun in 1996 by the Fiscal Standards and Accountability Committee, a standing committee of the Association of Chief Business Officials Board of California Community Colleges to address changes in laws, regulations, and GAAP since 1993. The project was a joint effort of district representatives and Chancellor's Office staff to update the manual and provide additional guidance to promote consistency of financial reporting among California community colleges.

After the 2000 revision, financial reporting requirements changed in multiple areas including the presentation of the annual financial statements, the reporting of other post-employment benefits, and fund balance reports. In 2009, work started on a revision to the BAM to incorporate these changes and any other requirements occurring since the last revision.

ACCOUNTING OVERVIEW

The following overview is provided to assist the reader's understanding of the conceptual framework of community college accounting.

Accounting: The Language of Business

There is no single, concise, comprehensive description of accounting. Accounting has been defined as "*. . . the system of recording and summarizing business and financial transactions and analyzing, verifying, and reporting the results*." [Webster's *Collegiate Dictionary, Tenth Edition, 1998*]

Accounting, then, is the special field of theory and practice concerned with the design and implementation of procedures for the accumulation and reporting of financial data. An accounting system is the total structure of records and procedures that identify, assemble, analyze, record and report information on the financial operations of a community college district or any of its funds and organizational components.

An accounting system must make it possible both: (a) To present fairly and with full disclosure the financial position and results of financial operations of the funds of a community college district in conformity with generally accepted accounting principles (GAAP); and (b) to determine and demonstrate compliance with finance-related legal and contractual provisions. An effective control environment helps ensure reliable financial reporting, effective and efficient operations as well as safeguarding assets against theft and unauthorized use, acquisition, or disposal. The control environment includes oversight provided by each district's board of trustees, the district's internal and/or external auditors, and the Chancellor's Office. The responsibilities of the different parties accountable for fiscal oversight are established in title 5. Specific requirements for sound fiscal management are found in *CCR* 5*§58311*.

Government versus Private Accounting: Measurement Focus and Basis of Accounting

Governmental accounting is founded upon the same basic concepts and conventions that underlie the accounting discipline as a whole. However, governmental accounting tends to focus on the uses of resources to attain the institution's objectives, rather than upon profits or losses. In general, in a private enterprise, products or services are sold directly to consumers who pay at least the cost of producing the products or providing the services. In contrast, the primary services provided by community colleges (instruction, community service, guidance and counseling, etc.) are paid for from a variety of revenue sources, most of which are not direct beneficiaries of the services.

The nonprofit nature of community colleges and the unique flow of revenue results in the use of the flow of current financial resources measurement focus used by other governmental entities. This measurement focus is intended to answer the question "Are there more or less resources that can be spent in the near future as a result of events and transactions of the period?" To better answer this question, the modified accrual basis of accounting is used. Under the modified accrual basis, revenues are recognized only when they are earned, measurable, and available. Measurable is interpreted as the ability to provide a reasonable estimate of actual cash flow. Revenues are available if collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures are recognized when an event or transaction is expected to draw upon current spendable resources.

However, certain community college activities may be similar to private enterprise in that they are funded in large part by direct charges to consumers (e.g., bookstore and cafeteria enterprise operations). Such activities use the flow of economic resources measurement focus to answer the question "Is the fund better or worse off economically as a result of events and transactions of the period?" To better answer this question, the full accrual basis of accounting is used to account for all revenues earned and expenses incurred during the period, regardless of the timing of the cash flows.

Fund Accounting

Because of the varied sources of revenue, some with restrictions and some without restrictions, governmental accounting systems should be organized and operated on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. [GASB Codification Section 1300, NCGA-1]

Fund accounting, therefore, is used as a control device to separate financial resources and ensure that they are used for their intended purposes with the fund as the basic recording entity for reporting specified assets and liabilities and related transactional movements of its resources.

Revenue and Expenditure Classification

Basic to all revenue and expenditure accounting is a systematic classification scheme for describing transactions. There can be no consistency and comparability in the recording of transactions without precise descriptions of the transaction elements.

Revenue classification is primarily by **source** and **purpose** (e.g., 8100 Federal Revenues; 8170 Vocational and Technical Education Act).

Expenditure classification is by **object** and by **activity**. Object classification relates to the commodity or service obtained (e.g., Object Account 1100, Instructional Salaries, Contract or Regular Status). Activity classification relates to the purpose of the expenditure (e.g., Activity Account 0100, Instructional Activities—Agriculture and Natural Resources).

Annual Financial Report and Audit

The annual financial report of the district is the vehicle for summarizing and communicating the results of budgetary decisions and transactions. The *Annual Financial and Budget Report* (CCFS-311) of each district contains, as specified by the Chancellor's Office, a statement of the actual revenues and expenditures for the fiscal year just completed, plus the estimated revenues and proposed expenditures for the succeeding fiscal year (*CCR §*58303).

An annual financial and compliance external audit, required by *Education Code* Section 84040, is the final examination of the annual financial statements' fairness and reliability. The audit must be conducted by certified public accountants licensed by the State Board of Accountancy. In the event the governing board of a community college district fails to provide for an audit, the Board of Governors shall provide for such audit, and if the Board of Governors fails or is unable to make satisfactory arrangement for such an audit, the Department of Finance shall make arrangements for the audit. The cost of any audit described above shall be paid from district funds. The annual financial statements are the responsibility of the district. Audit adjustments must be recorded in the district's accounting system to ensure the accuracy and consistency of financial reports. The annual financial statements and supplemental information are prepared in accordance with GASB Statements No. 34, *Basic Financial Statements – and Management Discussions and Analysis – for State and Local governments* and 35, *Basic Financial Statements and-Management Discussion and Analysis-for Public Colleges and Universities*. The use of GASB 35 which follows the Business Type Activity (BTA) Model was recommended by the California Community Colleges Chancellor's Office in consultation with Fiscal Standards and Accountability Committee. The use of this model provides for consistent and comparable reporting for all districts within the system.

It is important to understand the distinct purpose and use of the two primary financial reports for all districts, the CCFS 311 and the Annual Audited Financial Statements. The entity-wide financial statements, prepared in accordance with GASB 35, are presented using the economic resources measurement focus and the full accrual basis of accounting. Under the accrual basis, revenues are recognized when earned and expenses are recorded when an obligation has been incurred. All significant interfund transactions are eliminated. This financial statement and supplemental information with the independent auditor's report is the primary document for external reporting and evaluation of a district's financial condition. The report is also prepared in conformance with the requirements of the OMB Circular A-133 and Single Audit Act. In addition to other uses, it is included in the continuing disclosure requirements for long-term debt issuance. The report is distributed to several agencies including the following: the Federal Audit Clearinghouse, the California Department of Finance, and the California Department of Education.

The CCFS 311's use is primarily as an "internal" financial report for use within the System for comparing financial results across California Community College Districts. It is the primary financial report used by the Chancellor's Office for evaluating the financial condition of districts. The CCFS 311 is prepared using the modified accrual basis. Each fund of the district is reported distinctly. Districts generally record financial transactions throughout the year using the fund structure and modified accrual basis which allows for a fairly simple process of reporting year-end results on the CCFS 311. By contrast, the entity-wide financial statements require additional entries to bring to the full accrual basis and present the entity-wide financial results. These conversion entries are discussed in Chapter 6 of this manual.

As a result of the distinctive uses of the modified basis reporting model required by the CCFS-311 reporting and the Business Type Activities reporting model required by GASB Statement No. 34 and 35, community college districts have a choice in adopting certain reporting standards required by GASB. GASB Statement No. 54 described in Chapter 5 is required for governmental agencies reporting externally on a fund basis. The requirements of GASB Statement No. 54 should be reviewed prior to implementation and discussed with the district auditors to ensure full compliance with the standard, if implemented.

Education Code Section 84040 also provides that the Board of Governors must adopt criteria and standards for periodic assessment of the fiscal condition of community college districts. In addition, the Board of Governors must also take actions to improve the districts' fiscal conditions as necessary to encourage sound fiscal management practices. To this end, an Accounting Advisory: Monitoring and Assessment of Fiscal Condition (FS 05-05) was issued which recommends the minimum prudent unrestricted general fund balance for districts as well as establishing the review the process for the Chancellor's Office to monitor and evaluate the financial health of districts. This advisory is included in Appendix C.

Budgeting Overview

General Requirements

Budgeting is an essential element of the financial planning, control and evaluation processes of governments. Every governmental unit prepares a comprehensive budget covering all governmental, proprietary, and fiduciary funds for each annual fiscal period. The accounting system provides the basis for appropriate budgetary control. [GASB Codification Section 2400, NCGA Statement 1] The community college district budget is a plan of proposed expenditure for operations and estimated revenue for a given period of time (fiscal year). The budget represents the operational plans of the district in terms of economic decisions. Budget requirements and process are described in the *California Code of Regulations*, beginning with Section 58300.

Once the budget is adopted, the total amount designated as proposed expenditure for each major object of expenditure classification is the maximum allowed without additional governing board authorization for transfers between major classifications or from the reserve for contingencies in accordance with *California Code of Regulations* Section 58307.

For a definition of the major object of expenditure classifications, refer to Classification of Expenditures by Object (Chapter 4).

Important Dates

Action Required	On or Before	Title 5 Section
Tentative Budget Adoption	July 1	58305
Adopt Appropriation Limit	July 1	Article XIIIB, CA Constitution
Newspaper Publication stating Budget is Available as appropriate 58301		
Public Hearing	September 15	58301
Final Budget Adoption	September 15	58305
Annual Financial and Budget Report (CCFS-311) Sent to State Chancellor	October 10	58305
Informational Copy of Budget Sent to County Office of Education (if required)	September 30	58305
Submission of the Annual Audited Financial Statements Sent to the State Chancellor	December 31	

Important References in the California Code of Regulations (CCR), title 5 governing Budgeting and Accounting Requirements

The following table is a representative listing of references and is not to be considered all inclusive of the title 5 regulations.

Title 5§	Title	Excerpt/Description
58300	Requirements to Prepare and File Annual Statement	On or before the 15th day of September.
58301	Proposed Budget; Hearing; Notice; Publication	…Notification of dates and location(s) at which the proposed budget may be inspected by the public and date, time, and location of the public hearing on the proposed budget shall be published by the district in a newspaper of general circulation in the district, at least three days prior to…
58302	Budget	"budget" includes the preliminary budget and the adopted budget of a community college district.
58303	Contents of Budget Report	…proposed expenditures and of the estimated revenues for the ensuring fiscal year, together with a comparison of each item of revenue and expenditures of the fiscal year just completed…
58304	Form of Budget Report	…annual financial and budget reports shall be made in the form prescribed…*(Annual CCFS 311)*
58305	Tentative Budget; Filing; Contents; Computation of Tax Levy; Adoption; Filing and Approval of Final Budget	On or before the first day of July in each year, each district shall adopt a tentative budget…; on or before the 10th day of October each district shall submit … *(Annual CCFS 311)*
58306	Effect of Neglect or Refusal to Make a Budget	…the Chancellor may withhold any apportionment of state or local money…
58307	District Budget Limitation on Expenditure	The total amount budgeted as the proposed expenditure of the district for each major classification of district expenditures … shall be the maximum amount which may be expended for that classification for the school year. Transfers may be made from the reserve for contingencies to any expenditure classification or between expenditure classifications…by written resolution of the board of trustees…

58308	Appropriation of Excess Funds and Limitations	All income accruing to the district in excess of the amounts required to finance the total proposed expenditures…shall be added to the general reserve…
58310	Report on District's Financial Condition	…report in detail to the governing board of the district the district's financial condition …at least once every three months… *(CCFS 311Q)*
58311	Principles for Sound Fiscal Management	…The following principles shall serve as the foundation for sound fiscal management in community college districts: See Appendix C: FS 05-05: Monitoring and Assessment of Fiscal Condition
58312	Inadequate Plans by District or Failure to Implement Plans …	If the Chancellor determines that the district's plans prepared and adopted…are inadequate to solve the financial problems or to implement the principles of sound fiscal management…
58314	Failure of Procedures to Achieve District Financial Stability …	If the procedures pursuant to 58310 and 58312 fail to achieve district financial stability…reduce or withhold apportionment…
58318	Requirement for Employee Indemnity Bond	…district shall require each employee of the district, whose duty it is to handle funds of the district…
59010	Method of Accounting	Regulation Authorizing Budget and Accounting Manual
59100	General Authority of the Chancellor	…the Chancellor is authorized as needed to have audits or reviews conducted or to investigate any audit or review citing which indicates that the allocation of state moneys or applicable federal funding may have been in error…
59102	Contracting For Annual Audits	Arrangements for annual audits for any fiscal year as required by Section 84040 of the Education Code shall be made final no later than the May 1 preceding that fiscal year.
59104	Review of Annual Audits	Each district governing board shall review the annual audit prescribed pursuant to Section 84040 of the Education Code at a public meeting.
59106	Annual Audit Reports Due Date	Not later than December 31st.

59108	Chancellor's Review of Audit Citings	The Chancellor shall review the reports of audits conducted pursuant to Section 84040 of the Education Code, or any other audit or review assessing district compliance with audit responsibilities.
59110	District's Right to Respond	…prior to any actions to recover funds or to mandate other corrective measures, a district shall be given the opportunity to present information which might mitigate or refute any audit citing selected by the Chancellor for further investigation.
59112 59114	Audit Resolution Actions, and Apportionment Adjustments	If, upon reviewing a citing, the district's response and any other available information, the Chancellor finds that there is a need for corrective action to resolve a citing, the Chancellor may require the district…
59116	Student Attendance; Accountability for Accounting and Reporting; Minor or Inadvertent Errors; Apportionment; Discrepancy	The apportionment to a district…, shall not be affected by the audit, review or declaration, provided all of the following conditions are met…
59204 59204.1	50% Law (Ed Code 84362) Definitions Supplemental Definition of Hardship	For the purposes of Education Code Section 84362, the following terms shall be defined as set forth below.
59206 59207 59208 59209 59210 59211 59212 59213 59214	District Application for Exemption (50%) Notice To Academic Employees Consideration District Governing Board Response by Academic Employees Chancellor's Recommendation Board of Governors Action Amendments to District Applications Chancellors' Action Failure to Comply	…In the event a district has not expended the required amount and it appears to its governing board that such expenditure would have resulted in serious hardship to the district or in the payment of excessive salaries of classroom instructors, it may apply to the Chancellor in a form and manner to be determined by the Chancellor not later than September 15th…
59270-59272	Auxiliary Organizations … Implementing Regulations	Each district governing board wishing to establish an auxiliary organization must adopt implementing regulations…

59400 - 59408	Required Instructional and Other Materials	…a district may, consistent with the provisions of this Subchapter, require students to provide instructional and other materials required for a credit or noncredit course…*See Appendix C for reference to Student Fee Handbook*
59020 59033	Record Retention	…each Community College district shall establish an annual procedure by which the chief executive officer, or other designee shall review documents and papers received or produced during the prior academic year and classify them…
53310	Rules for Calculating Full-Time Equivalent Faculty (FTEF) Attributable to Part-Time Faculty	In calculating full-time equivalent faculty (FTEF) attributable to part-time faculty, the following rules shall be applicable…
58003 58012	Attendance Reporting Procedures	Calculation of Attendance including reporting dates
59410	Withholding Grades, Transcripts, etc., for Nonrepayment of Financial Obligations	…district may provide by appropriate rules and regulations that grades, transcripts, diplomas and registration privileges, or any combination thereof, shall be withheld from any student or former student…

In addition to title 5, district transactions are governed by other provisions in the Education Code, such as the Civic Center Act, and other code sections such as the Public Contracting Code. The above table is not intended as an exhaustive list.

The following is a summary of the Standard III requirements as they relate specifically to the financial analysis and review of a district.

Financial Resources

Financial resources are sufficient to support student learning programs and services and to improve institutional effectiveness. The distribution of resources supports the development, maintenance, and enhancement of programs and services. The institution plans and manages its financial affairs with integrity and in a manner that ensures financial stability. The level of financial resources provides a reasonable expectation of both short-term and long-term financial solvency. Financial resources planning is integrated with institutional planning.

1. The institution relies upon its mission and goals as the foundation for financial planning.
    a. Financial planning is integrated with and supports all institutional planning.
    Standard III: Resources
    b. Institutional planning reflects realistic assessment of financial resource availability, development of financial resources, partnerships, and expenditure requirements.
    c. When making short-range financial plans, the institution considers its long-range

financial priorities to assure financial stability. The institution clearly identifies and plans for payment of liabilities and future obligations.

d. The institution clearly defines and follows its guidelines and processes for financial planning and budget development, with all constituencies having appropriate opportunities to participate in the development of institutional plans and budgets.

2. To assure the financial integrity of the institution and responsible use of its financial resources, the financial management system has appropriate control mechanisms and widely disseminates dependable and timely information for sound financial decision making.

a. Financial documents, including the budget and independent audit, reflect appropriate allocation and use of financial resources to support student learning programs and services. Institutional responses to external audit findings are comprehensive, timely, and communicated appropriately.

b. Appropriate financial information is provided throughout the institution.

c. The institution has sufficient cash flow and reserves to maintain stability, strategies for appropriate risk management, and realistic plans to meet financial emergencies and unforeseen occurrences.

d. The institution practices effective oversight of finances, including management of financial aid, grants, externally funded programs, contractual relationships, auxiliary organizations or foundations, and institutional investments and assets.

e. All financial resources, including those from auxiliary activities, fundraising efforts, and grants are used with integrity in a manner consistent with the mission and goals of the institution.

f. Contractual agreements with external entities are consistent with the mission and goals of the institution, governed by institutional policies, and contain appropriate provisions to maintain the integrity of the institution.5

g. The institution regularly evaluates its financial management processes, and the results of the evaluation are used to improve financial management systems.

3. The institution systematically assesses the effective use of financial resources and uses the results of the evaluation as the basis for improvement.

Chapter 2

FUND / STRUCTURE

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GENERAL

This chapter details the uniform fund structure to be used by all community college districts for daily accounting and preparation of budgets and financial reports in accordance with *Education Code* Section 84030. The narrative discusses the purpose of fund accounting and prescribes minimum accounting requirements and special accounting applications.

The primary purpose of fund accounting is to segregate financial information. This is accomplished by accounting for financial transactions related to specific activities or objectives within separate funds. A Governmental Accounting system should be organized and operated on a fund basis. A fund is defined as a "*fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equity or fund balances and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions and/or limitations*." [GASB Codification Section 1300, NCGA-1]. Included in this definition would be any and all subfunds.

Unlike typical private business accounting, the diverse nature of public operations and complexity of legal requirements preclude maintenance of financial transactions and balances in a single accounting entity. In public agency accounting, separate funds and accounts are required to maintain records of separately designated assets, liabilities, and balances. A governmental agency is, in effect, a combination of several distinct accounting entities functioning independently of each other.

A basic principle of fund accounting is the concept of grouping funds. A funds group consists of individual funds used to report sources and uses of resources in providing some major service or group of services. In general, funds of a similar nature and function should be assigned to the same funds group.

The community college fund structure presented here is based largely on concepts and principles contained in GAAFR. This structure allows districts to establish any number of funds, sub funds, or accounts for internal accounting, but requires for external financial reporting purposes that all accounts be consolidated into one of three broad fund types:

- Governmental Fund Types
- Proprietary Fund Types
- Fiduciary Fund Types

Generally accepted accounting principles further require that all accounts reported within a single fund group use the same "basis of accounting" for timing the recognition of revenues, expenditures, and transfers. The proper timing of that recognition is discussed as part of the accounting requirements for each fund type.

Fund code numbers have been assigned to each fund. The use of these numbers is required for the statewide automated reporting system.

GOVERNMENTAL FUNDS TYPES

10 General Funds (Unrestricted and Restricted)
20 Debt Service Funds
30 Special Revenue Funds
40 Capital Projects Funds

General Description

The Governmental Funds are used to collect financial information on resources used, or available for use, in carrying out operations associated with the institution's educational objectives.

Governmental funds are used to segregate financial resources for attaining institutional objectives. Expendable assets are assigned to the various governmental funds according to the purposes for which they are to be used; current liabilities are assigned to the fund from which they are to be paid. The difference between each governmental fund's assets and liabilities - the fund equity - is referred to as the "fund balance."

The fiscal year for governmental funds is July 1 through June 30.

General Accounting Principles

- Governmental fund accounting uses the modified accrual basis of accounting. The emphasis is on determining the financial flow of operating revenues and expenditures, rather than net income. Consequently, the statement of revenues, expenditures, and changes in fund balance is one of the primary governmental fund operating statements. It may be supported or supplemented by more detailed schedules of revenues, expenditures, transfers, and other changes in fund balance.
- Revenues and related receivables are recorded in the accounting period in which they are earned, available, and measurable unless otherwise specified. "Available" means collectible in the fiscal year accrued or soon enough thereafter to be used to pay liabilities of the fiscal year in which accrued.
- Expenditures and related accruals (current liabilities) are recognized in the accounting period in which the fund liability is incurred.
- A "liability" is a debt or other legal obligation (exclusive of encumbrances) arising out of transactions in the past that must be paid, renewed, or refunded within the current account period. Accordingly, an encumbrance of funds, such as the issuance of a purchase order, does not become a liability unless the service or product specified on the purchase order has been delivered.
- Deferred revenues should be recorded for certain revenues that are collected in advance of when they are earned. For example, enrollment fees charged in the current fiscal year for courses beginning after the spring term, or federal or state grants where revenue is recognized in the period that expenditures take place are subject to Deferred Revenue accounting.

- Capital asset purchases are recorded as expenditures in the period acquired. However, the cost of the asset should also be captured for capitalization as determined by the district's Capital Asset policy. The capitalization of assets and related depreciation is recorded as part of the GASB 34/35 conversion entries to the full accrual basis of accounting for reporting in the annual audited financial statements (see Chapter 6).
- Proceeds from long-term debt are recorded as Other Sources of Revenues in the period received. The long-term portion of the related liability is captured and accounted for in accordance with the GASB 34/35 conversion entries to the full accrual basis of accounting for reporting in the annual audited financial statements (see Chapter 6).

GOVERNMENTAL FUNDS GROUP

10 General Fund

11 Unrestricted Subfund
12 Restricted Subfund

Nature and Purpose

The General Fund is the primary operating fund of the district. It is used to account for those transactions that, in general, cover the full scope of operations of the district (instruction, administration, student services, maintenance and operations, etc.). All financial resources, and transactions except those required to be accounted for in another fund, shall be accounted for in the General Fund.

Examples of activities that should **not** be accounted for in the General Fund include noninstructional expenditures of the district's child development program, cafeteria, bookstore, or farm operations, which are accounted for within the Special Revenue or Enterprise Funds as determined by the district governing board (see discussion on Special Revenue and Enterprise Funds). Similarly, resources used for major capital outlay projects, including Scheduled Maintenance and Special Repairs (SMSR), are accounted for in a Capital Projects Fund; and the accumulation of resources for the repayment of long term debt will be accounted for in a Debt Service Fund.

General purpose revenues received from the State may not be used to subsidize Community Service (*EC §*78300) or Contract Education (*EC §*78021) programs. Such programs must recover the actual costs, including administrative costs, of providing the programs from public or private contracts, contributions, donations, or user fees.

For purposes of flexibility, the district may establish any number of subfunds or accounts to constitute its General Fund; however, for financial reporting, these must be consolidated into either the Unrestricted Subfund (11) or Restricted Subfund (12).

Division of the General Fund into two subfunds reflects the need to differentiate truly discretionary revenue from restricted revenue, while preserving a complete accounting of the financial operation and support of educational programs. Accordingly, restricted revenues (such as those for categorically-funded programs) are accounted separately from other general purpose moneys, but classified as a component of the total fund that provides instructional and support services.

Accounting Principles

- The governing board may elect to set aside unrestricted moneys for specific future operating purposes. Such an allocation would be accounted for in the Unrestricted Subfund as "Fund Balance - Designated for Specific Future Purposes".
- The governing board may elect to transfer unrestricted moneys to other funds, i.e., Debt Service Fund, Special Revenue Fund, and Capital Projects Fund. Similarly, the governing board may elect to return any balances of designated moneys appearing in other fund groups to the General Fund, Unrestricted Subfund, if not prohibited by law or regulation. The movement of money between the Restricted and Unrestricted Subfunds is an intra-fund transfer. The transfer between the General Fund and other funds (e.g., transfers to Capital Outlay Projects Fund for SMSR matching requirements) is an interfund transfer.
- Deferred revenues (a liability) should be recorded for revenues which are collected in advance of when they are earned. For example, categorical or restricted moneys are recorded as revenue only to the extent they have been earned (expenses have been incurred for the intended purpose of the gift, grant, contract, etc.).
- See Governmental Funds Type above for additional accounting principles.

General Fund Subfunds

11 Unrestricted Subfund

The Unrestricted Subfund is used to account for resources available for the general purposes of district operations and support of its educational program.

This subfund includes board-**designated** moneys which represent a commitment of unrestricted resources that are stipulated by the governing board to be used for a specific purpose. Such resources are not truly restricted since such designations can be changed at the board's discretion. Because the governing board retains discretionary authority to redesignate these resources for some other purpose (assuming no legal obligation has been entered into), board-designated moneys are to be accounted for in the General Fund, Unrestricted Subfund. Resources with uses restricted by law, regulations, donors, or other outside agencies are to be accounted for in the Restricted Subfund.

12 Restricted Subfund

The Restricted Subfund is used to account for resources available for the operation and support of the educational programs that are specifically restricted by laws, regulations, donors, or other outside agencies as to their expenditure. Such **externally** imposed restrictions are to be contrasted with internally created designations imposed by the governing board on unrestricted moneys. In general, unrestricted moneys can be used for any legal purpose deemed necessary. Restricted moneys are generally from an external source that requires the moneys be used for specific purposes.

Categorical or restricted moneys are recorded as revenue in the Restricted Subfund only to the extent they have been earned (expenses have been incurred for the intended purpose of the gift, grant, contract, etc.). Moneys received prior to being earned (before expenses are incurred) are accounted for as deferred revenue (a liability) in the balance sheet accounts (see Chapter 5).

See Appendix B for specific examples of categorical and restricted programs.

Moneys such as matching contributions for categorical programs are unrestricted, but may be designated by the governing board for those purposes. Moneys designated as matching contributions should be maintained in the General Fund, Unrestricted Subfund.

GOVERNMENTAL FUNDS GROUP

20 Debt Service Funds

21 Bond Interest and Redemption Fund
22 Revenue Bond Interest and Redemption Fund
29 Other Debt Service Fund

Nature and Purpose

Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest. Revenues accounted for in Debt Service funds are primarily from special property tax levies, interest, or operational income from completed projects financed by revenue bonds, energy loans, or may receive interfund transfers from other funds servicing the debt. Debt Service Fund cash and investments are generally maintained in the appropriate county treasury. However, the repayment of emergency apportionments received pursuant to *CCR §*58316 is accounted for in the General Fund, Subfund 11 - Unrestricted.

Accounting Principles

- Debt Service Funds are a Governmental Fund Type and are to be reported utilizing the modified accrual basis of accounting as described in the "General Section".

<u>Debt Service Subfunds</u>

21 Bond Interest and Redemption Fund

The Bond Interest and Redemption Fund is the designated fund referred to in *Education Code* Sections 15146, 15234, 15235, 15250, 15251, and 15253 as the interest and sinking fund. This fund is to be used only to record transactions related to the receipt and expenditure of local revenues derived from the property tax levied for the payment of the principal and interest on outstanding bonds of the district. The fund is typically maintained by the County Treasury as the county assessor's office accounts for property tax receipts and the related principal and interest payment to the bond holders. At year end the county auditor will provide the accounting for the revenues and related expenditures to the district.

Unless otherwise specified in the bond issue, any money paid into this fund from taxes and other sources and remaining after the payment of all bonds and coupons payable from this fund, or which is in excess of an amount sufficient to pay all unpaid bonds and coupons payable from this fund, shall be transferred to the district's General Fund - Unrestricted upon order of the county auditor (*EC §*15234). Such funds are recharacterized as local property tax revenue for general operating support and are to be subtracted from total revenues in determining apportionment allocations.

Any other money remaining in this fund in excess of that needed to pay off all unpaid bonds and coupons payable from this fund, shall be transferred to the district's General Fund - Unrestricted upon the order of the county auditor. (*EC §*15234)

Responsibility for this fund is vested with the county auditor.

22 Revenue Bond Interest and Redemption Fund

The Revenue Bond Interest and Redemption Fund is the designated fund to be used to record transfers from the Revenue Bond Project Fund (the operating fund) as may be required to pay the principal and interest for bonds issued under provisions of Chapter 5, Division 7, Part 49 of the *EC §*81901 et seq.

The Revenue Bond Interest and Redemption Fund shall be established and maintained in the appropriate county treasury.

Any moneys remaining in this fund after the revenue bond has been paid may, by governing board action and order of the county auditor, be transferred to the Revenue Bond Project Fund to be used for such other purposes incidental to the acquiring, constructing, furnishing, equipping, operating, and maintaining of such projects authorized under the provisions of *EC §*81901 et seq. (*EC §*81964). Responsibility for this fund vests with the district and the Board.

29 Other Debt Service Fund

This fund is used for the accumulation of resources for, and the payment of, other types of general long-term debt principal and interest. For example, fees collected for use of parking facilities built with student body funds under the authority of *EC §*76064 would be deposited in the General Fund and transferred to this fund to repay the debt. Additionally, repayment of energy loans would be reflected in this fund.

In addition, the funded portion of Certificates of Participation (COP) on deposit with a trustee may be recorded in this fund; districts should, however, record COP activity in the fund which receives the original proceeds (generally the Capital Projects Fund). While COP's are not a legal debt of the district, the capital lease payments represent a financial obligation that must be recorded in the district's accounts. The trustee will maintain the funds in various trust accounts. Districts must account for all activity in the trust accounts in this fund. Proceeds from COP are recorded in the fund in which the related expenditures take place (generally the Capital Projects Fund).

After all obligations have been paid, any unexpended balance may be expended for the purpose established in the original obligation or, if no restriction is placed on the unexpended balance, may be transferred to the General Fund - Unrestricted for expenditure. Responsibility for this fund vests with the Board.

GOVERNMENTAL FUNDS TYPE

30 Special Revenue Funds

- 31 Bookstore Fund
- 32 Cafeteria Fund
- 33 Child Development Fund
- 34 Farm Operation Fund
- 35 Revenue Bond Project Fund
- 39 Other Special Revenue Fund

Nature and Purpose

Special Revenue Funds are used to account for the proceeds of specific revenue sources whose expenditures are legally restricted. In general, Special Revenue Funds encompass support services that are not directly related to the educational program of the college.

If recovery of the cost of providing such services is **not** the objective of the governing board, the activities may be recorded in Special Revenue Funds. However, if the district engages in business-type activities (e.g., bookstore and cafeteria), where the intent is to recover, in whole or in part, the cost of providing goods or services to beneficiaries, the activities should be reported in Enterprise Funds.

Activities such as cafeteria, child development, and farm operations may provide non-classroom instructional or laboratory experience for students and incidentally create goods or services that may be sold. In the process of creating the incidental goods or services, expenditures are incurred in addition to those necessary solely for the educational benefit of students. These expenditures are charged against revenue received as a direct result of the operations and, thus, not accounted for as part of the General Fund.

However, the expenditures for providing instructional activities related to services that are accounted for in Special Revenue Funds should be recorded in the General Fund. For example, a food service program that makes and sells goods to the public as part of the curriculum would record the direct cost of instruction (instructional salaries and wages and other related costs) in the General Fund and the cost of the materials used in the preparation of goods for sale in a Special Revenue Fund.

Accounting Principles

- Special Revenue Funds are a Governmental Fund Type and are to be reported utilizing the modified accrual basis of accounting as described in the “General Section”.

Special Revenue Subfunds

31 Bookstore Fund

The Bookstore Fund is the fund designated to receive the proceeds derived from the district's operation of a community college bookstore pursuant to *EC §*81676 when recovery of the cost of providing such services is **not** the objective of the governing board. **However, if the intent is to recover, in whole or in part, the cost of providing goods or services to beneficiaries, the activities should be reported in the Bookstore Enterprise Fund (51).**

All necessary expenses, including salaries, wages, and cost of capital improvement for the bookstore may be paid from generated revenue. Net proceeds from bookstore operations shall be expended in accordance with *EC §*81676.

The Bookstore Fund may be established and maintained in the appropriate county treasury or, as an alternative, the governing board may establish a bookstore bank account with a financial institution for each bookstore established.

If the district and/or college contracts for its bookstore operations, and the contractor assumes all responsibilities for the operation, then the revenues, except for those which must be placed in a debt service fund, shall be treated as General Fund Unrestricted revenues. If the operations are run by the associated students and then contracted out, the revenues would be treated as Associated Students Trust Fund revenues.

32 Cafeteria Fund

The term "cafeteria" as used in this section is considered synonymous with the term "food service".

The Cafeteria Fund is the fund designated to receive all moneys from the sale of food or for any other services performed by the cafeteria when recovery of the cost of providing such services is **not** the objective of the governing board. **However, if the intent is to recover, in whole or in part, the cost of providing goods or services to beneficiaries, the activities should be reported in the Cafeteria Enterprise Fund (52).** If vending is an integral part of the district's food service, the activity should be recorded in this fund. However, the instructional activity associated with a program in food service, hotel management, or a related field, should be separately identified and recorded in the General Fund.

The food served by cafeterias shall be "sold to the patrons of the cafeteria at such a price as will pay the cost of maintaining the cafeteria, exclusive of the costs made a charge against the funds of the community college district by resolution of the governing board" (*CCR §*59013). "Costs made a charge against the funds of the community college district" may include the cost of housing and equipping the cafeteria and the cost of replacement of equipment and utilities if the governing board elects to subsidize such costs. The intent of the *CCR §*59013 appears to be for the food service operation to be a cost recovery rather than a revenue-producing activity.

The Cafeteria Fund may be established and maintained in the appropriate county treasury or, as an alternative; the governing board may establish a cafeteria bank account with a financial institution for each cafeteria established.

If the district and/or college contracts for its cafeteria operations, and the contractor assumes all responsibilities for the operation, then the revenues, except for those which must be placed in a debt service fund, shall be treated as General Fund Unrestricted revenues. If the operations are run by the associated students and then contracted out, the revenues would be treated as Associated Students Trust Fund revenues.

33 Child Development Fund

The Child Development Fund is the fund designated to account for all revenues for, or from the operation of, child care and development services, including student fees for child development services. Costs incurred in the operation and maintenance of the child care and development services are paid from this fund. However, those segments of child care and development activities that are part of the instructional activity of the college or district must be accounted for in the General Fund.

34 Farm Operation Fund

The Farm Operation Fund is the fund designated to receive all moneys from the sale of produce, livestock, and other products of any farm operation of the district. Costs incurred in the operation and maintenance of such a farm shall be paid from this fund in accordance with the direction of the governing board.

The Farm Operation Fund may be established and maintained in the county treasury or, as an alternative; the governing board may establish a farm bank account with a financial institution for each farm established.

The Farm Operation Fund shall be accounted for as an Enterprise Fund within the Proprietary Funds Group when it is the **intent** of the governing board to operate the farm as a business operation and to account for its total costs (direct and indirect, including capitalization of assets and related depreciation) of operation.

35 Revenue Bond Project Fund

The Revenue Bond Project Fund is the fund designated to receive all revenues from the operation of any project e.g., dormitories or other housing facilities, boarding facilities, student union or activity facilities, vehicle parking facilities, or any other auxiliary or supplementary facilities for individual or group accommodation) acquired or constructed by the governing board from district revenue bonds under the provisions of *EC §*81901 et seq.

Moneys in this fund are used to pay the costs of operation and maintenance of the projects and for any other purposes authorized by resolution of the board, subject to any restrictions provided by law or the indenture (*EC §*81962). Amounts required for interest on or redemption of bonds issued pursuant to *EC §*81901 et seq., are transferred from the Revenue Bond Project Fund to the Revenue Bond Interest and Redemption Fund for such purposes.

Any balance remaining in this fund after payment of all costs, expenses, and charges authorized to be expended from this fund may be allocated and used for purposes incidental to the acquiring, constructing, furnishing, equipping, operating, and maintaining of the projects authorized under *EC §*81901 et seq., as may be determined by the governing board. (*EC §*81964.)

39 Other Special Revenue Fund

This fund is used to account for all other specific revenue sources that are legally restricted to expenditures for specified purposes that are not an integral part of the district's instructional or administrative and support operation (e.g., dormitory replacement).

This fund may be established and maintained in the county treasury or, as an alternative; the governing board may establish a bank account with a financial institution for each such fund established.

GOVERNMENTAL FUNDS GROUP

40 Capital Projects Funds

41 Capital Outlay Projects Fund
42 Revenue Bond Construction Fund
43 General Obligation Bond Fund
4X Other Capital Project Fund

Nature and Purpose

Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and other capital outlay projects (other than those financed by proprietary and fiduciary funds). Resources accumulated for future acquisition or construction of capital projects are recorded in this fund.

Capital projects financed through proprietary or fiduciary funds are to be accounted for within the applicable proprietary or fiduciary fund.

The following are examples of expenditures that may be recorded in Capital Projects Funds.

- Acquisition or construction of new capital facilities (e.g., land, buildings, site improvements).
- Improvements or extensions to the life of existing capital facilities, including major repair and remodeling projects such as Scheduled Maintenance and Special Repair (SMSR) as defined in *EC* §84660.
- Initial equipping of buildings (library books, furniture, fixtures, classroom supplies, etc.).
- Significant capital equipment purchases.

Accounting Principles

- Capital Project Funds are a Governmental Fund Type and are to be reported utilizing the modified accrual basis of accounting as described in the "General Section".
- Proceeds of long-term debt borrowings to be used for capital acquisition or construction are reported as Other Sources of Revenue. The net amount of proceeds typically differs from the face amount of the debt reported in the long-term debt as determined by the district due to the fees charged by bond underwriters and any premium or discount on the bonds resulting from a difference between the stated rate and market rate of interest at the date of issuance. The difference between the net cash received and the gross bond proceeds is recorded as an expenditure for bond issuance costs.
- Grant revenues (federal, state or local) restricted to capital purposes must be accounted for in Capital Projects Funds unless specifically required to be reported in another fund.
- Capital Projects Funds typically use object of expenditure codes in the 6000 series (Capital Outlay); however, other object codes may be used to account for the nature of expenditures (e.g., wages, materials, or other operating expenses) provided that such expenditures are directly related to the acquisition or construction of a capital project. For example, a 2000 object code (Classified and Other Nonacademic Salaries) may be

used in a capital project fund to account for the work performed by district employees on a capital project.

Capital Projects Subfunds

41 Capital Outlay Projects Fund

The Capital Outlay Projects Fund is used to account for the accumulation and expenditure of moneys for the acquisition or construction of significant capital outlay items, and Scheduled Maintenance and Special Repairs (SMSR) projects. In general, this fund shall be established and maintained in the appropriate county treasury and moneys shall be used only for capital outlay purposes. However, resources transferred from other funds (e.g., proprietary or fiduciary funds) to the Capital Outlay Projects Fund to support capital projects may be maintained in a financial institution other than the county treasury.

The Capital Outlay Projects Fund is used to account for the receipt and expenditure of State Funded capital projects, scheduled maintenance projects. As legal and contractual requirements will vary from one project or class of projects to another, an individual capital outlay project subfund may be established for each authorized project or bond issue, as necessary. However, in reporting fund balances and operations in the *Annual Financial and Budget Report* (CCFS-311) all capital outlay project subfunds are to be combined.

The Capital Projects Funds may also be used to account for the proceeds of Certificates of Participation (COP). COPs are a financing mechanism used by governmental entities to finance capital construction and acquisition. While not a legal debt of the district, COPs are financial obligations that must be reported in the district's financial statements.

The accounting treatment for COPs is similar to accounting for capital leases. The gross proceeds are recorded as a source of funds (Account 8940, Proceeds of General Long-Term Debt) and held in the fund in which the money will be used (generally the Capital Projects Fund). Underwriting and other fees are recorded as expenditures and not a reduction of the proceeds from the issuance of debt. Capital lease payments are generally recorded as expenditures in the fund which received the proceeds and acquired or constructed the assets. (See Chapter 7 for the proper recording method.).

In addition, the governing board by formal resolution, may provide for the accumulation of moneys over a period of years for specific capital outlay purposes (including district match for SMSR as defined in *EC §*84660) through interfund transfers of general purpose moneys to the Capital Outlay Projects Fund. State moneys for SMSR projects are recorded directly into this fund. SMSR is defined in *EC §*84660 as "unusual, nonrecurring work to restore a facility to a safe and continually usable condition for which it was intended". These items are divided into five funding categories; roofs, utility, mechanical, exterior, and other.

42 Revenue Bond Construction Fund

The Revenue Bond Construction Fund is the fund designated in *EC §*81961 for the deposit of proceeds from the sale of all community college revenue bonds authorized under the provisions of *EC §*81901. Such deposits are used to meet the costs of acquisition or construction and all expenses of authorized projects (i.e., dormitories or other housing facilities, boarding facilities, student union or student activity facilities, vehicle parking facilities, or any other auxiliary or supplementary facilities as authorized).

Proceeds from the sale of such bonds are deposited with the county treasurer and, upon order of the county auditor, credited to the district's Revenue Bond Construction Fund. Moneys in the fund are expended (pursuant to claims filed by the governing board with the county auditor or as provided in the indenture) for the purposes authorized by *EC §*81901 et seq., or for such other purposes as may be authorized by resolution of the governing board, subject to legal restrictions.

Moneys in the fund may be invested by the governing board, subject to such limitations as may be provided in the indenture providing for the issuance of the revenue bonds and the district's board adopted investment policy.

Any surplus moneys remaining in the fund after all bonds have been fully paid are to remain available for acquisition of sites and constructing, equipping, or furnishing of facilities maintained by the district, subject to any restrictions in the indentures providing for the issuance of the revenue bonds (*EC §*81966).

The Revenue Bond Construction Fund is one of three funds used in the revenue bond process. The Revenue Bond Construction Fund is used for acquisition or construction; the Revenue Bond Project Fund (Special Revenue Fund Type) is used as the operating fund once the project has been acquired or constructed; and the Revenue Bond Interest and Redemption Fund is utilized for the payment of principal and interest on the revenue bond.

43 General Obligation Bond Fund

The General Obligation Bond Fund is designated to account for the proceeds from the sale of bonds under Proposition 39, and the related expenditures related to the acquisition and construction of projects voted and approved by the local property owners.

The proceeds from the sale of bonds are deposited with the county treasury and recorded as Other Financing Sources. Moneys may only be expended for the purposes authorized by the language of the Proposition 39 Bond voter approved ballot measure. As there may be several projects on-going at any moment in time, multiple subfunds of the General Obligation Bond Fund may be used, but all projects and subfunds will be rolled up and reported to the Chancellor's Office as one fund.

Expenditures are typically recorded in the 6000 object code related to the Acquisition and Construction of the approved project. Expenditures for Construction management and other contracted services are recorded within the 5000 object code and approved salaries and benefits are recorded within the applicable 2000 and 3000 object code. All costs associated with the construction of buildings and other capital projects are to be accumulated for capitalization and depreciation upon completion of the project in accordance with the district capitalization policy. Projects may span over on accounting period; therefore detail record keeping is required to ensure the proper cost accumulation for individual projects.

Capital projects financed through the General Obligation Bonds may require matching funds from state or local sources. These matching funds should be accounted for within the proper fund of the district utilizing an identifying project code to allow for the accumulation of the total cost of the project.

4X Other Capital Project Fund

The accumulation of resources and accounting for expenditures related to capital projects not identified through one of the funds noted above may be included in Fund 4X Other Capital Project Fund.

PROPRIETARY FUNDS GROUP

50 Enterprise Funds
60 Internal Service Funds

General Description

The Proprietary Funds Group is used to account for those ongoing activities that, because of their income-producing character, are similar to those found in the private sector. All assets, liabilities, equities, revenues, expenses, and transfers relating to business or quasi-business activities are accounted for through these funds. The focus of proprietary fund accounting is on measuring the cost of providing services, and the degree to which this cost is being recovered through user charges.

Generally accepted accounting principles for the Proprietary Funds Group are similar to those employed in private sector accounting. GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting," states that proprietary funds shall continue to follow FASB standards issued on or before November 30, 1989. However, from that date forward, proprietary funds have the option of either (1) choosing not to apply future FASB standards (including amendments of earlier pronouncements), or (2) continuing to follow new FASB pronouncements (unless they conflict with GASB guidance).

The Proprietary Fund Type consists of the Enterprise Funds and the Internal Service Funds.

General Accounting Principles

- The measurement focus is on determination of net income, financial position, and changes in cash flows.
- Revenues and expenses are recognized on the full accrual basis. Revenues shall be recognized in the accounting period in which they are earned and expenses shall be recognized in the period incurred, regardless of the timing of related cash flows.
- Capital assets (e.g., building and equipment) and the related depreciation expense are recorded in the accounts of the applicable fund. Depreciation expense is the systematic allocation of the cost of an asset (net of its estimated salvage value) over its useful life to account for the estimated loss in value or service life of capital assets because of wear and tear through use, elapse of time, inadequacy, or obsolescence.
- All debts associated with the business activities of the Proprietary Funds Types are recorded in the accounts of the applicable fund.
- Assets and liabilities should be classified in financial statements as current and noncurrent (assets) or long term (debts).
- Fund equity is comprised of contributed capital and retained earnings.

PROPRIETARY FUND TYPES

50 Enterprise Funds
- 51 Bookstore Fund
- 52 Cafeteria Fund
- 53 Farm Operations Fund
- 59 Other Enterprise Fund

Nature and Purpose

Enterprise Funds are used to account for an operation when it is the intent of the governing board to operate as a business and to account for its total operating costs (direct and indirect, including depreciation). Such costs are financed or recovered primarily through user charges. Enterprise Funds may also be used when the periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Enterprise Funds may be established and maintained in the county treasury or, as an alternative, the governing board may establish a bank account for each enterprise fund established.

Accounting Principles

- District property, plant, and equipment may be reassigned from the governmental funds to an Enterprise Fund. Reassignment of assets without a corresponding transfer of money from the Enterprise Fund to the General Fund, should be recorded as contributed capital.
- The district may charge rent where it does not wish to reassign property, plant, and equipment. Such charges shall be treated as rental revenue to the General Fund and rent expense to the Enterprise Fund.
- Utilities and maintenance costs should be directly charged to the enterprise activity, where practical. However, if these costs are included in the rental charge the entire amount is treated as rent.
- Depreciation expense is being calculated for all depreciable assets (e.g., buildings and equipment) used in an enterprise activity. Depreciation expense is the systematic allocation of the cost of an asset (net of its estimated salvage value) over its useful life to account for the estimated loss in value or service life of capital assets because of wear and tear through use, elapse of time, inadequacy, or obsolescence.
- The liabilities for compensated absences such as accrued vacation are recognized at full value when earned in Enterprise Funds.
- With adequate justification, Enterprise Funds may operate on a different fiscal year from the Governmental Funds.

Districts should be aware of potential tax issues related to Enterprise Funds, in particular Unrelated Business Income Tax (UBIT). This is an income tax on net revenues generated from other sources of income than the College District's exempt educational purposes. Examples of revenue sources that <u>may</u> be subject to UBIT would include advertising revenue or swap meet revenue. Districts should consult with their external accountants to determine the possibility of tax reporting.

Enterprise Subfunds

51 Bookstore Fund

The Bookstore Fund is the fund designated to receive the proceeds derived from the district's operation of a community college bookstore pursuant to *EC §*81676 when it is the **intent** of the governing board to recover, in whole or in part, the costs of providing the services (see also Bookstore Fund, 31 under Special Revenue Funds). All necessary expenses, including salaries, wages, and cost of capital improvement for the bookstore may be paid from generated revenue.

Net proceeds from bookstore operations shall be expended in accordance with *EC §*81676. Bookstore funds expended for capital projects, other than projects associated with proprietary or fiduciary activities, shall be accounted for in the Capital Outlay Projects Fund. Bookstore funds are transferred to the Capital Outlay Projects Fund by an interfund transfer.

52 Cafeteria Fund

The term "cafeteria" as used in this section is considered synonymous with the term "food service".

The Cafeteria Fund is the fund designated to receive all moneys from the sale of food or for any other services performed by the cafeteria when it is the **intent** of the governing board to recover, in whole or in part, the costs of providing the services (see also Cafeteria Fund, 32 under Special Revenue Funds). Costs incurred in the operation and maintenance of such are paid from this fund. If vending is an integral part of the district's food service, the activity should be recorded in this fund.

The food served "shall be sold to the patrons of the cafeteria at such a price as will pay the cost of maintaining the cafeteria, exclusive of the costs made a charge against the funds of the community college district by resolution of the governing board" (*CCR §*59013). "Costs made a charge against the funds of the community college district" may include the cost of housing and equipping the cafeteria and the cost of replacement of equipment and utilities if the governing board elects to subsidize such costs.

53 Farm Operations Fund

The Farm Operation Fund is the fund designated to receive all moneys from the sale of produce, livestock, and other products of any farm operation of the district. Costs incurred in the operation and maintenance of such a farm shall be paid from this fund in accordance with the direction of the governing board.

59 Other Enterprise Fund

This fund is used to account for all other operations that are financed and operated like private business enterprises.

PROPRIETARY FUND TYPE

60 Internal Service Funds

61 Self-Insurance Fund
69 Other Internal Services Fund

Nature and Purpose

Internal Service Funds are used to account for the financing of goods or services provided by one department or organizational unit to other units on a cost-reimbursement. While the use of Internal Service Funds is not required under GAAP, they may be useful to identify and manage costs associated with particular services (e.g., self-insurance programs, duplicating and printing services, data processing, purchasing, motor pools, and central stores) and allocating such costs to user departments. By using the full accrual basis of accounting and flow of economic resources measurement focus, they can measure and recover the full cost, including depreciation of capital assets, of providing goods and services.

In order for Internal Service Funds to be effective, they must meet the following two criteria:

1. The services must be tangible, and
2. It must be possible to determine the extent to which the services benefit other units.

Internal Service Subfunds

61 Self-Insurance Fund

The Self-Insurance Fund is the fund designated by *EC §*81602 to account for income and expenditures of self-insurance programs authorized by *EC §*72506(d). This fund is maintained in the county treasury and used to provide for payments on deductible types of insurance policies, losses or payments arising from self-insurance programs, and losses or payments due to noninsured perils. A Self-Insurance Fund is **not** used to account for a district's participation in a Joint Powers Agreement (JPA). Payments made to the custodian or administrator of the fund shall be recorded to the appropriate district account in the same manner as payments to an insurance company. The district's participation in such a JPA should be footnoted in the financial statements. If a district is an administrator of a JPA, the activity should be recorded in Agency Fund - JPA Custodian Fund (Self-Insurance).

The Self-Insurance Fund shall operate as an Internal Service Fund using accounting principles specified in GASB Statement No. 10, "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues". In accordance with Internal Service Funds accounting, the Self-Insurance Fund shall charge other funds for their proportionate share of the estimated premiums, claims and expenses incurred plus contingencies, and reflect the receipt of money as revenue.

Cash placed in this fund may be invested and reinvested by the county treasurer, with the advice and consent of the governing board, in securities which are legal investments for surplus county funds. However, it is extremely important that reserves for self-insured risks be based on a realistic reserve formula.

Separate self-insurance funds may be established for each type of self-insurance or deductible activity (e.g., Workers' Compensation Self-Insurance Fund, Health Self-Insurance Fund, etc.); however, these separate funds must be consolidated into one Self-Insurance Fund for State reporting purposes.

Accounting Principles

- Self-insurance losses are to be accrued as liabilities and the related expense recorded, if: (1) it is "probable" that a potential loss or losses may have been incurred at the balance sheet date, and (2) the amount of loss can be "reasonably estimated". (See FASB Statement No. 5, "Accounting for Contingencies," for definitions of the terms "probable" and "reasonably estimated".) Claims that are incurred but not reported (IBNR) resulting from events that took place prior to the issuance of the financial statements should be accrued if the experience of the district or other information enables the district to make a reasonable estimate of such losses. In developing this estimate, the district may wish to consult with a professional insurance accountant or actuary.

- Cost recovery payments to the Self-Insurance Fund are recorded as revenues by the Self-Insurance Fund and expenditures of the sending funds.

  Examples: A payment made by the General Fund to a Workers' Compensation Self-Insurance Fund is recorded as an expenditure from General Fund Object Account 3000, Workers' Compensation Insurance, and as revenue to Account 8830, Contract Services, within the Workers' Compensation Self-Insurance Fund. Object Account 5000, Insurance, would be used to record payments made to a Self-Insurance Fund for liability purposes.

- Common expenditures made by a Self-Insurance Fund include: payment of claims which are charged to Object Account 5000, Self-Insurance Claims and payments to independent contractors for administrative services which are recorded in Object Account 5000, Personal and Consultant Services. Other costs incurred by a Self-Insurance Fund are charged to the appropriate expenditure account that describes the expenditure.

- When the Self-Insurance Fund covers loss of capital assets, the Self-Insurance Fund shall compensate the fund that originally incurred the expense. Such moneys received shall be recorded as Other Financing Sources - Proceeds of General Fixed Assets (Controlling Account 8910) subsidiary classification Compensation for Loss of General Fixed Assets, in the receiving fund; and as Object Account 5000, Self-Insurance claims in the Self-Insurance Fund. All other losses or claims covered by the Self-Insurance Fund may be paid directly from the Self-Insurance Fund or other funds of the district with reimbursement from the Self-Insurance Fund. Such reimbursement shall be abated against the original object of expenditure category in the receiving fund.

- Costs of insurance to provide coverage over and above self-insurance capabilities are to be recorded as insurance expenses of the Self-Insurance Fund, if paid from this fund.

- If amounts held in a Self-Insurance Fund are considered to be in excess of amounts required (based on actuarial experience or other appropriate cost projections), current or future charges to other funds may be reduced.

- If all funds of a district are combined to reflect total district revenues and expenditures, the Self-Insurance Fund revenues and expenditures are excluded, since such inclusion would overstate the totals. However, aggregate balance sheets (the combined general ledgers of all funds) would include the Self-Insurance Fund.

- The balance of the Self-Insurance Fund is restricted and cannot be considered a part of the working cash available to other funds of the district.

69 Other Internal Services Fund

This fund shall be established to account for revenues and expenditures for other internal services, for example, retiree benefit funds. The governing board of any community college district may establish a fund to accumulate moneys from salary reduction agreements, other contributions for employee retirement benefit payments, or both. Such moneys shall be accounted for as an Other Internal Services Fund. The district shall maintain a separate accounting of each type of retiree benefit fund by establishing accounts known as *(name of district) Other Internal Services Fund, (type of retiree benefit fund) Retirees' Benefit Fund*. The district's share of moneys placed in this fund shall be treated as an expense to the sending fund, and a revenue to the receiving fund. For specific financial reporting and disclosure requirements for pensions and post-employment health care, refer to GASB Statement Nos. 25, 26 and 27. The district shall maintain a separate accounting of funds reported as Other Internal Services Fund. Such funds may be established and maintained in the county treasury or, as an alternative; the governing board may establish a separate bank account with a financial institution for each such fund established. Refer to Special Accounting Applications for requirements concerning separate bank accounts.

FIDUCIARY FUNDS GROUP

70 Trust Funds
80 Agency Funds

General Description

The Fiduciary Funds Group is used to account for assets held by the district in a trustee or agency capacity for individuals, private organizations, other governmental units, and/or other funds. Activities related to district operations should not be reported in fiduciary funds.

The Fiduciary Funds Group is comprised of trust and agency funds. There is no definitive guidance for distinguishing between trust and agency funds. They differ in degree rather than in kind. However, the primary distinction between trust funds and agency funds is that the district or college may exercise some discretion in the disbursement or expenditure of the moneys in the trust funds but does not have discretionary power or authority in agency funds. For example, if a district receives a contribution for a scholarship in which the district determines the recipient, it should be recorded in the Scholarship and Loan Trust Fund. However, if the same contribution provided that the donor determines the recipient of the scholarship, it should be recorded in the Scholarship and Loan Agency Fund.

An important accounting distinction between the two fund types is that revenues, expenditures/expenses and fund balance are reported in trust funds while agency funds recognize only increases and decreases in the liability to the owners of the assets.

If any of the following conditions are present, a trust fund is appropriate.

- There is a formal agreement granting the district discretionary authority.
- There are contractual or regulatory conditions restricting the use of the funds or requiring the district to exercise a management role or report the results of operations in its financial statements.
- There is a compelling reason to measure operations (revenues, expenditures/expenses, and fund balance) and report the results in the district’s financial statements. Examples of compelling reasons may include the materiality of the revenues and expenditures/expenses, or the usefulness of the information to the readers of the financial statements.

As a general rule, districts should recognize all cash pass-through grants as revenue and expenditures or expenses in a governmental, proprietary, or trust fund pursuant to GASB Statement No. 24, “Accounting and Financial Reporting for Certain Grants and Other Financial Assistance”.

Agency funds are characterized by a purely custodial relationship. As a result, there is no measurement of operations or fund balance; assets are always matched by the liability to the owners of those assets. Examples of fiduciary relationships in which agency funds are appropriate include deferred compensation plans and certain fiscal agent agreements or pass through grants in which the district serves only as a cash conduit, i.e., it has no administrative or direct financial involvement in the program.

Trust and agency funds include the following four subfund types: nonexpendable trust funds, expendable trust funds, agency funds, and pension trust funds.

General Accounting Principles

- Trust funds include expendable and nonexpendable trusts that use the modified and full accrual bases of accounting, respectively. In both expendable and nonexpendable trusts, the measurement of operations is reported.
- Agency funds use the modified accrual basis of accounting and do not report operations (revenues, expenditures/expenses, and fund balance). The district only recognizes increases and decreases in the liability to the third party.
- Assets are capitalized and depreciation is recognized in nonexpendable trust funds in accordance with the established capitalization policy.

FIDUCIARY FUNDS GROUP

70 Trust Funds

71 Associated Students Trust Fund
72 Student Representation Fee Trust Fund
73 Student Body Center Fee Trust Fund
74 Student Financial Aid Trust Fund
75 Scholarship and Loan Trust Fund
76 Investment Trust Fund
77 Deferred Compensation Trust Fund
79 Other Trust Funds

Nature and Purpose

Trust funds are used to account for assets held on behalf of another party in which the district has some discretionary authority for decision making or responsibility for approving expenditures. Trust funds are appropriate when one or more of the following conditions is present.

- There is an agreement granting the district discretionary authority.
- There are contractual or regulatory conditions restricting the use of the funds or requiring the district to exercise a management role or report the results of operations in its financial statements.
- There is a compelling reason to measure operations (revenues, expenditures/expenses, and fund balance) and report the results in the district's financial statements. Examples of compelling reasons may include the materiality of the revenues and expenditures/expenses, or the usefulness of the information to the readers of the financial statements.

Trust funds consist of two subfund types that are applicable to community college districts: expendable and nonexpendable.

Accounting Principles

- **Expendable** trusts are those in which the principal and interest may be expended or disbursed. Such trusts use the same flow of current financial resources measurement focus and modified accrual basis of accounting used by governmental funds.
- **Nonexpendable** trusts are those in which the principal is required to remain intact. These trusts are accounted for on the full accrual basis. Capital assets - and the related depreciation expense - and long-term debt are accounted for in nonexpendable trust funds.

The capital assets and long-term debt associated with expendable trust funds should be recorded in the applicable trust fund per GASB's Codification Sections 1400.102 and 1500.102. If these assets are material, they should comply with GASB's Codification or their special status should be indicated by reporting them as separate amounts (i.e., "trust fund assets/liabilities") in the financial statements.

Trust Subfunds

71 Associated Students Trust Fund

The Associated Students Trust Fund is used to account for moneys held in trust by the district for organized student body associations (excluding clubs) established pursuant to *EC §*76060. In a multi-college district, such a fund may be established for each college's student body. Organized student body associations formed as auxiliary organizations under *EC §*72670 et seq., fall under the *Auxiliary Organizations Requirements for Accounting, Reporting, and Auditing* manual. Copies are available from the Chancellor's Office.

To provide information useful for the general student population, it is important to include the operations of the Associated Students activities in the district's financial statements. By including this information, the student body can measure the operations of its Associated Students Trust Fund and compare its operations with similar activities of other districts. A secondary reason for including moneys held for Associated Students in trust funds is the responsibility that districts have for activities (*EC §*76060) and expenditures (*EC §*76063) of the student body association.

Moneys held in trust for individual student clubs formed under *EC §*76060 et seq., are accounted for as Agency Funds-*Student Clubs Agency Fund* because including the revenues and expenditures of such clubs in the district's financial statements generally would not provide meaningful information to the reader of statements. While student clubs operate under many of the same regulations as the Associated Students, they typically benefit a very small segment of the student population rather than the general student body. However, under certain circumstances, a district may have a compelling reason for accounting for such clubs as trust funds.

The funds of any student body organization established in the public schools of any community college district shall, subject to approval of the governing board, be deposited or invested in one or more of the following ways: in an insured bank, state-chartered savings and loan association, credit union, centralized State Treasury system, or other depository or investment as authorized by *EC §*76063.

In addition, the funds of a student body organization may be loaned or invested in the following ways: loaned, with or without interest, to any student body organization established in another community college of the district, for a period not to exceed three years; or invested in permanent improvements to any community college district property. (*EC §*76064)

Student body moneys shall be expended in accordance with procedures established by the student body organization consistent with *EC §*76063. Each disbursement shall be subject to the approval of:

- An employee of the district designated by the governing board;
- The academic employee who is the designated advisor of the particular student body organization; and
- A representative of the particular student body organization.

The governing board must provide for the supervision of all moneys raised by any student body or student organization using the name of the college. Pursuant to *EC §*76065, the cost of supervision may constitute a proper charge against the funds of the district or student body. That is to say, the district board may decide to expend district moneys to oversee operations of these organizations including provision of district personnel to maintain a continuing audit of student body moneys.

72 Student Representation Fee Trust Fund

The Student Representation Fee Trust Fund is used to account for moneys collected pursuant to *EC §*76060.5 that provides for a student representation fee of one dollar per semester if approved by two-thirds of the students voting in the election. The election shall not be sufficient to establish the fee unless the number of students who vote in the election equals or exceeds the average of the number of students who voted in the previous three student body association elections. The fee is to be expended to provide for the support of governmental affairs representatives who may be stating their positions and viewpoints before city, county, and district governments and before offices and agencies of the State government. The district may charge a fee to recover its actual cost of administering these fees up to, but not more than, seven percent of the fees collected and deposited.

A student may, for religious, political, financial or moral issues, refuse to pay the student representation fee. The refusal must be in writing and submitted to college officials on the same form that is used for collection of fees at the time the student pays other fees.

Fees collected pursuant to *EC §*76060.5 shall be under the custody of the district's chief fiscal officer and, subject to approval of the governing board, shall be deposited or invested in one or more of the following ways: in an insured bank, state-chartered savings and loan association, credit union, centralized State Treasury system, or other depository or investment as authorized by *EC §*76063.

Student Representation Fee Trust Fund moneys shall be expended in accordance with procedures established by the student body organization consistent with the requirements of *EC §*76063. Each disbursement shall be subject to the approval of:

- An employee of the district designated by the governing board;
- The academic employee who is the designated advisor of the particular student body organization; and
- A representative of the particular student body organization.

73 Student Body Center Fee Trust Fund

The Student Body Center Fee Trust Fund is used to account for moneys collected by the district pursuant to *EC §*76375 for the purpose of establishing an annual building and operating fee to finance, construct, enlarge, remodel, refurbish, and operate a student center. The fee may not exceed $1 per credit hour and may not exceed $10 per student per fiscal year. The fee may be implemented only if approved by two-thirds of the students voting in a valid election for this purpose.

Fees collected pursuant to *EC §*76375 shall be the responsibility of the chief fiscal officer of the district. The district shall be reimbursed from these funds in an amount to cover the cost of custodial and accounting services provided by the district in connection with these funds. These funds shall be expended by the chief fiscal officer upon submission and approval of the appropriate claim schedule by the student body government or its designee.

The appropriate uses of the fee income and the student body center facility shall be the responsibility of the student government for whom the fee was collected.

Until needed for authorized purposes, all moneys collected pursuant to *EC §*76375 shall, subject to approval of the student government, be deposited or invested in one or more of the following ways: in an insured bank, state-chartered savings and loan association, credit union, centralized State Treasury system, or other depository or investment as authorized by *EC §*76375.

74 Student Financial Aid Trust Fund

The Student Financial Aid Trust Fund is used to account for the deposit and direct payment of government-funded student financial aid, including grants and loans or other moneys intended for similar purposes and the required district matching share of payments to students.

Moneys for college work-study programs are <u>not</u> accounted for in the Student Financial Aid Trust Fund. While the objective of college work-study programs is to provide financial assistance to students, services must be performed by students as a condition for receiving the money. Such expenditures are salaries, not financial aid. Thus, for accounting and reporting purposes, the disbursement of work-study moneys (excluding match) is recorded as General Fund, *Subfund 12-Restricted* expenditures for the activity descriptive of the services performed, rather than as student financial aid expenditures. Expenditure of matching moneys is recorded in the same way, but as General Fund, *Subfund 11-Unrestricted* expenditures.

See Appendix B for examples of aid accounted for as part of the Student Financial Aid Trust Fund.

The Student Financial Aid Trust Fund may be established and maintained in the county treasury or, as an alternative, the governing board may establish separate bank accounts to be known as (*name of community college*) *Student Financial Aid Account*. If more than one bank account is established, the type of aid shall be identified in the account's title. If federal moneys are in the account, the word "Federal" must appear in the account name. Refer to Special Accounting Applications for additional requirements concerning separate bank accounts.

All expenses incurred in the administration of the Student Financial Aid Trust Fund are an expense of the General Fund. Moneys received by the district for administering student financial aid programs are to be recognized as income to the General Fund.

Moneys, other than district moneys, from governmental entities for direct aid to students are recorded as revenues to the Student Financial Aid Trust Fund. A district's matching portion of direct student financial aid is shown as an interfund transfer to the Student Financial Aid Trust Fund.

75 Scholarship and Loan Trust Fund

The Scholarship and Loan Trust Fund (referred to in *CCR §*59015) is used to account for such gifts, donations, bequests, and devises (subject to donor restrictions) which are to be used for scholarships or for grants in aid and loans to students. The Scholarship and Loan Trust Fund may be established and maintained in the county treasury or, as an alternative the governing board may establish separate bank accounts. Refer to Special Accounting Applications for requirements concerning separate bank accounts.

The Scholarship and Loan Trust Fund excludes categorical governmental moneys and their required match, which are recorded in the Financial Aid Trust Fund.

Donations to the district or college for grants, scholarships, and loans to students shall be recorded as revenues to the Scholarship and Loan Trust Fund. District moneys may be used for grants, scholarships, and loans pursuant to Article XVI, Section 6 of the State Constitution. Such moneys, excluding matching funds for categorical programs, shall be recorded as interfund transfers to this fund.

All expenses in the administration of the fund including, but not limited to, operating costs, audits, and promotion of the fund are proper charges against the district's General Fund, *Subfund 11-Unrestricted* moneys. The annual budget of the district's General Fund shall include moneys for these expenses. *CCR §*59015 requires that these funds be audited annually.

76 Investment Trust Fund

The Investment Trust Fund is used to account for any cash bequests or gifts not required for the immediate needs of the district and that the district wishes to invest. This fund is for investment purposes only. Any principal or earnings must be returned to the fund from which the principal came before being expended.

The fund is established and maintained in the appropriate county treasury. If it is required that the gift or bequest be used for specific purposes, the governing board shall place the money in a separately named account within the fund.

Investment Trust Fund moneys shall only be used for the purposes of the gift or bequest, or invested in securities, warrants, or instruments of indebtedness specified in *Government Code* Section 53601.

Any security, warrant, or instrument of indebtedness purchased pursuant to this section may be sold and the proceeds invested in similar securities, warrants, or instruments, or placed in the Investment Trust Fund.

The governing board shall appoint a committee to provide investment advice.

77 Deferred Compensation Trust Fund

The Deferred Compensation Trust Fund is used to account for moneys held by a district in a trustee capacity for *Internal Revenue Code* Section 457 deferred compensation plans. The plan should be reported as an expendable trust fund in the financial statements in accordance with GASB Statement No. 32. Plans should apply the valuation provisions of GASB Statement No. 31 to plan investments listed in subparagraph 2a through e of that statement. All other plan investments should be reported at fair value.

Deferred compensation plans should not be reported in fiduciary funds if the district does not act in a fiduciary capacity (e.g., maintains control of plan assets or provides ongoing management or investing services). If the district does not act as a trustee or agent, amounts withheld from employee's salaries should be recorded as a liability in the General Fund until paid to the recognized trustee in accordance with the deferred compensation plan.

79 Other Trust Funds

Other Trust Funds are used to account for all other moneys held in a trustee capacity by the college or district for individuals, organizations, or clubs.

Such funds may be established and maintained in the appropriate county treasury, or as an alternative, the governing board may establish a bank account for each trust. Refer to Special Accounting Applications for requirements concerning separate bank accounts.

FIDUCIARY FUNDS TYPE

80 Agency Funds

81 Student Clubs Agency Fund
82 Scholarship and Loan Agency Fund
83 Foundation Agency Fund
84 Joint Powers Agreement (JPA) Custodian Agency Fund
85 Deferred Compensation Agency Fund
89 Other Agency Funds

Nature and Purpose

Agency funds differ from trust funds in the degree of discretion that may be exercised. In agency funds, the agreement or instrument allows the district or college little or no discretion. As a result, agency funds are purely custodial in nature (i.e., assets equal liabilities; no fund equity exists). Agency funds are appropriate when all of the following conditions are present.

There is an agreement granting the district little or no discretionary authority.

There are no contractual or regulatory conditions restricting the use of the funds or requiring the district to exercise a management role or report the results of operations in its financial statements.

There is no compelling reason to measure operations (revenues, expenditures/expenses, and fund balance) and report the results in the district's financial statements. Examples of compelling reasons may include the materiality of the revenues and expenditures/expenses, or the usefulness of the information to the readers of the financial statements.

Generally accepted accounting principles require that agency funds be used to account for "pass-through" grants (GASB's *Codification of Governmental Accounting and Financial Reporting*, Section S40.119) and deferred compensation plans established in conformity with *Internal Revenue Code* Section 457 (*Codification*, Section D25.109). An agency fund may also function as an internal clearing account for grants, contributions, or revenues that must be allocated to more than one fund or when the user fund is not immediately known.

Accounting Principles

- Results of operations (revenues, expenditures and fund balance) are not recorded. The district only recognizes increases and decreases in the liability to the third party.
- Assets and liabilities are recorded on the modified accrual basis of accounting.

Agency Subfunds

81 Student Clubs Agency Fund

This fund is used to account for moneys of student clubs formed under *EC §*76062. Student clubs that are organized under "associated students" should be accounted for as trust funds rather than agency funds.
Student club moneys are to be deposited in a bank or banks, subject to the approval of the governing board. Such accounts must be insured by the Federal Deposit Insurance Corporation and must be named *(name of college) Student Clubs Agency Fund, (name of club*) *Club Account* (*EC §*76063).

Student club moneys shall be expended in accordance with procedures established by the student club. Each disbursement shall be subject to the approval of:

- An employee of the district designated by the governing board;
- The academic employee who is the designated advisor of the particular student club organization; and
- A representative of the particular student club organization.

82 Scholarship and Loan Agency Fund

Moneys in this fund differ from moneys in the Scholarship and Loan Trust Fund because the district does not have discretionary authority over these funds. The district does not have to evaluate or decide who should receive the loans or scholarships. Those decisions or processes are laid out in the written agreement or instrument of conveyance of the money to the district.

83 Foundation Agency Fund

This fund is used to account for the activities of organizations known as "foundations" or "booster" clubs, if the district or college is the accounting or fiscal agent for that organization.

84 Joint Powers Agreement (JPA) Custodian Agency Fund

Whenever a district acts as the custodian or fiscal agent of moneys through a Joint Powers Agreement, this fund is established. Activities generally covered through this type of agreement are for self-insurance type pools or other pooled purchasing arrangements. (*EC §*81603)

85 Deferred Compensation Agency Fund

The Deferred Compensation Agency Fund is used to account for moneys withheld from employees' salaries for recognized deferred compensation programs other than *Internal Revenue Code* Section 457 plans, which are accounted for in the Deferred Compensation Trust Fund, when the district acts in a fiduciary capacity.

Deferred compensation plans should not be reported in fiduciary funds if the district does not act in a fiduciary capacity (e.g., maintain control of plan assets or provide ongoing management or investing services). If the district does not act as a trustee or agent, amounts withheld from employee's salaries should be recorded as a liability in the General Fund until paid to the recognized trustee in accordance with the deferred compensation plan.

89 Other Agency Funds

Other agency funds are used to account for any other moneys for which the district is the fiscal agent. A written agreement between both parties clearly defining the roles and responsibilities of each must be executed.

The governing board shall adopt rules, responsibilities, and procedures to ensure the safeguarding of moneys within this fund and the appropriate distribution of moneys from this fund.

This fund may also function as an internal clearing account for grants, contributions, or revenues that must be allocated to more than one fund or when the user fund is not immediately known. Such funds may be established and maintained in the appropriate county treasury, or as an alternative, the governing board may establish a bank account for each fund. Refer to Special Accounting Applications for requirements concerning separate bank accounts.

Chapter 3

Accounting for Revenues and Other Financing Sources

Table of Contents

GENERAL

This chapter explains the procedures that community college districts are to use to account for revenues (additions to assets without any accompanying increase to liabilities). It prescribes the minimum accounting standards for classifying revenues and other financing sources and for abating revenues.

Detailed revenue accounting serves several important purposes, in that it:

- provides districts with a uniform method of recognizing and classifying revenues;
- provides districts a means of determining whether all revenues that should have been received, have, in fact, been received;
- captures information that districts must report in various financial statements; and
- facilities district planning and budget preparation by providing historical information on sources of revenue.

In Governmental Funds and Expendable Trust Funds, revenues are recorded when they are earned, measurable, and available to pay liabilities of the current period – modified accrual basis of accounting. In Proprietary Funds and Nonexpendable Trust Funds, revenues are recognized when they are earned, regardless of the timing of related cash flows – full accrual basis of accounting. Receivables are accrued for amounts that satisfy the applicable definition of revenue but are not received at the close of the accounting period. Amounts that are received that do not meet the definition of revenue (i.e., they are not earned) must be recorded as deferred revenues.

One notable exception to the rules for recognition of revenue is the treatment of enrollment fees charged for instructional periods after the close of the Spring term. Such fees must be recorded as deferred revenue, regardless of whether they are earned by the end of the fiscal year.

Revenue is to be distinguished from income (the excess of revenues over expenses). Income from the conduct of district operations such as the bookstore or cafeteria is accounted for within Proprietary Funds Group – Enterprise Funds.

Likewise, non revenue receipts - moneys received for which the district incurs an obligation (liability) - such as moneys received through long-term loans, the sale of bonds, etc., are not to be accounted for as revenue, but as Other Financing Sources (Account 8900). (Refer to *Governmental Accounting, Auditing, and Financial Reporting* (GAAFR) for details)

CLASSIFICATION OF REVENUES AND OTHER FINANCING SOURCES

Community college revenues and other financing sources are to be classified by fund and by source. Classification by fund is explained in the previous chapter. The classification by source presented here depicts major and subsidiary reporting classes that shall be used in recording such information. Districts may increase the detail of their revenue recording by creating further subdivisions to this classification as needed. Revenue accounts in this chapter apply to all funds except as otherwise noted.

Federal and State revenue classifications are used to record awards or financial assistance which are required to be included in Federal or State compliance reports. Office of Management and Budget (OMB) Circular A-133 *Audits of State, Local Governments, and Non-Profit Organizations* defines Federal awards as: "Federal financial assistance and Federal cost-reimbursement contracts that non-Federal entities receive directly from Federal awarding agencies or indirectly from pass-through entities. It does not include procurement contracts, under grants or contracts, used to buy goods or services from vendors". Therefore, contracts to provide instructional services to Federal or State agencies are recorded as Local Revenue, Account 8830, Contract Services, unless there is an external requirement to report them as Federal or State Revenue.

Expenditures of Federal revenues (grants or contracts) are accounted for and reported in accordance with OMB Circular A-21; *"Cost Principles for Educational Institutions."* Copies of the circular are available at www.whitehouse.gov/omb/circulars_a021_2004. This circular provides guidance for determining costs applicable to Grants, Contracts and Other Agreements with Educational Institutions.

Accounts that are not numbered in this manual are required, but the district may assign the account number.

8100 Federal Revenues

8110 Forest Reserve
8120 Higher Education Act
8130 Workforce Investment Act (formerly Job Training Partnership Act)
8140 Temporary Assistance for Needy Families (TANF)
8150 Student Financial Aid 8160 Veterans Education
8170 Career and Technical Education Act (CTEA)
8190 Other Federal Revenues

All revenues received or accrued from federal awards (whether distributed by State, Federal, or local agencies) shall be recorded as Federal Revenues. Federal awards are defined in OMB Circular A-133 *Audits of State, Local Governments, and Non-Profit Organizations* as: "Federal financial assistance and Federal cost-reimbursement contracts that non-Federal entities receive directly from Federal awarding agencies or indirectly from pass-through entities. It does not include procurement contracts, under grants or contracts, used to buy goods or services from vendors".

Account 8100, Federal Revenues, is the controlling account that summarizes amounts recorded in the following subsidiary accounts. Districts can determine if a particular grant is authorized by Federal agencies by searching the *Catalog of Federal Domestic Assistance* via the Internet at:

http://www.gsa.gov/fdac/queryfdac.htm

8110 Forest Reserve

Revenue from the State Controller's Office as allocation of timber sale proceeds from U.S. Forest Reserve Land, *EC §* 2300 and *GC §* 29484.

8120 Higher Education Act

Revenue from grants authorized by the Higher Education Act of 1965. Grants include Title III programs for institutional development (including Part A: Strengthening Institutions); Title IV programs to motivate and support students from disadvantaged backgrounds (including Upward Bound, Student Support Services, and Educational Opportunity Centers, and the Federal Work-Study Program); and Title VI programs for international education programs

8130 Workforce Investment Act (WIA) (formerly Job Training Partnership Act)

Revenue from the provisions of the Workforce Investment Act (Public Law 105-220) for job training, employment opportunity, and other services to enhance the self-sufficiency of economically disadvantaged, unemployed, or underemployed persons. This account does **not** include the Employment Training Panel (ETP) or Economic Development programs. These funds are to be recorded within Account 8650, State Reimbursable Categorical Programs.

8140 Temporary Assistance for Needy Families (TANF)

Revenue (Federal portion) for additional fixed, variable, and one-time costs to provide support services and instruction for welfare recipients under the State's CalWORKs Program. The State's matching share is recorded within Account 8620, General Categorical Programs.

8150 Student Financial Aid

Revenue for direct student financial aid (accounted for in the Student Financial Aid Trust Fund) or for administering student financial aid programs (accounted for in the Restricted General Fund).

Applicable assistance would include the Perkins Loans, Pell Grants Program, Supplemental Educational Opportunity Grants (SEOG), Academic Competitiveness Grants and Nursing Loans as well as other Federal financial aid as may become available.

College work-study moneys are to be reported under the Higher Education Act (8120).

8160 Veterans Education

Revenue for the operation of veterans outreach, recruitment, special counseling, and special educational programs. Includes any financial assistance for U.S. military veterans.

8170 Career and Technical Education Act (CTEA)

Revenue from Career and Technical Education Act grants for special studies, demonstration projects, supplemental services to special populations in identified educational programs, etc. including Perkins Title I and Title II

8190 Other Federal Revenues

Revenue from all other federal awards, as defined above, even if received through another State or local agency. This includes federal funds from the State Department of Rehabilitation for the WorkAbility II and III programs.

8600 State Revenues

8610 General Apportionments
8620 General Categorical Programs
8630 Education Protection Account
8650 Reimbursable Categorical Programs
8670 State Tax Subventions
8680 State Non-Tax Revenues
8690 Other State Revenues

State funds received or accrued from the State government (whether distributed by State or local agencies) shall be recorded as State Revenues. Federal moneys distributed by State or local agencies are to be recorded under Federal Revenues. The presence of a CFDA Number on the Grant Award Letter is an indication the funding is from a Federal source. Contracts to provide instructional services to State agencies are reported as Local Revenue, Account 8830, Contract Services, unless there is an external requirement to report them as State revenue.

Emergency apportionment (*CCR §*58316) is recorded within Account 8940, Proceeds of General Long Term Debt–Other General Long-Term Debt. The deduction from apportionment made by the State Controller for repayment of Emergency Apportionment is accounted for as an expenditure (Object 7100, Debt Retirement) and not a reduction of General Apportionment.

Account 8600, State Revenues, is the controlling account that summarizes amounts recorded in Accounts 8610 through 8690.

8610 General Apportionments

Apprenticeship Apportionment
State General Apportionment
Other General Apportionments

These accounts are used to record the receipt of state moneys allocated by the Chancellor's Office through certification to the State Controller's Office as well as any adjustments accrued for the First Principal Apportionment (P-1). The certification is based on calculations prescribed by law (e.g., levels of student attendance). General Apportionments are distributed periodically in accordance with provisions of law or as scheduled by the Chancellor's Office. These moneys are unrestricted and are used at the discretion of the district's governing board for general instructional and operational purposes.

Account 8610, General Apportionments, is the controlling account that summarizes amounts recorded in the following subsidiary classifications:

Apprenticeship Apportionment

Revenue from apprenticeship apportionment resulting from the attendance of eligible students in related and supplemental apprenticeship courses (*EC §*8150).

State General Apportionment

Revenue from State General Apportionment pursuant to the SB 361 (*CCR §*58700) resulting from the attendance of California residents and specified nonresidents as provided by law in credit and noncredit courses approved by the Chancellor's Office.

Other General Apportionments

All other revenues apportioned and available to finance unrestricted general operations, including State funds for Basic Skills, Part Time Faculty allocations, Office Hours and Insurance , and the two percent of enrollment fees waived pursuant to the Board Financial Assistance Program.

8620 General Categorical Programs

Child Development
Extended Opportunity Programs and Services (EOPS)
Disabled Students Programs and Services (DSPS)
Temporary Assistance for Needy Families (TANF)
California Work Opportunities and Responsibility to Kids (CalWORKs)
Telecommunications and Technology Infrastructure Program (TTIP)
Other General Categorical Programs

These accounts are used to record the receipt of restricted State revenue allocated by the Chancellor's Office or other State agencies for which districts receive funds without filing an application or claim. While these items are not necessary to receive such funds, expenditure reports may be required. Moneys are distributed periodically in accordance with provisions of law or as scheduled by the applicable office. These funds are restricted for specific purposes and are recognized as revenue only when earned. Advances are recorded as deferred revenue until earned.

Account 8620, General Categorical Programs, is the controlling account that summarizes amounts recorded in the following subsidiary classifications:

Child Development

Revenue for child care and development services and programs pursuant to Chapter 2 of Part 6 of the *Education Code* (commencing with Section 8200). These revenues are accounted for in the **Child Development Fund.**

Revenue received as Campus Child Care Tax Bailout for former tax revenue derived from *EC §§* 8329 and 8330 are recorded in Other General Categorical Programs and are also accounted for in the **Child Development Fund**.

Extended Opportunity Programs and Services (EOPS)

Revenue for providing allowable supplemental services through EOPS to encourage enrollment of students handicapped by language, social, and/or economic disadvantages (*EC* §69640).

Disabled Students Programs and Services (DSPS)

Revenue for providing allowable supplemental services and programs to disabled students (*EC* §84850).

Temporary Assistance for Needy Families (TANF)

Revenue (State portion) for additional fixed, variable, and one-time costs to provide support services and instruction for welfare recipients under the State's CalWORKs Program. The Federal share is recorded within Account 8140, Temporary Assistance for Needy Families (TANF).

California Work Opportunities and Responsibility to Kids (CalWORKs)

Revenue for providing educational services to CalWORKs recipients through work/study, childcare, curriculum development and redesign, and instruction for job development and placement.

Telecommunications and Technology Infrastructure Program (TTIP)

Revenue for the development and implementation of a comprehensive telecommunications infrastructure including model applications and faculty and staff development in the areas of telecommunications and technology.

Other General Categorical Programs

All other restricted State funds automatically allocated to districts for specific restricted purposes or programs not elsewhere identified, such as Campus Child Care Tax Bailout (*EC* §§8329 and 8330), Cooperative Agencies Resources Education (CARE), Board Financial Assistance Program (BFAP) Administrative Allowance, Matriculation, Faculty and Staff Development and Diversity, Instructional Equipment and Library Materials, Block Grants (on-going and one-time allocations), Foster Care/Parent Program, and any other on-going or one-time allocations from state sources not accounted for within specific sub-object codes.

Districts shall identify and keep separate records of the receipt and expenditure of these moneys as required by law.

8630 EPA Education Protection Account

This account is used to record the receipt of State Revenue generated as a result of The Schools and Local Public Safety Protection Act of 2012. Revenue from EPA is unrestricted. The Act specifically prohibits the expenditure of EPA funds for administrative salaries and benefits and other administrative costs

8650 Reimbursable Categorical Programs

Community College Construction Act
Scheduled Maintenance and Special Repair Program
Instructional Improvement Grant
Other Reimbursable Categorical Programs

These accounts are used to record amounts received or accrued from the apportionment process or grants and contracts for which the district is required to submit an application or claim for reimbursement. These funds are restricted for specific purposes and are recognized as revenue only when earned. Advances are recorded as deferred revenue until earned.

Account 8650, Reimbursable Categorical Programs, is the controlling account that summarizes amounts recorded in the following subsidiary classifications:

Community College Construction Act

Revenue for capital outlay projects funded through State appropriations as part of the Community College Construction Act (*EC §*81800 et seq., and *CCR §*57000 et seq.). These funds are deposited in the **Capital Outlay Projects Fund**.

Scheduled Maintenance and Special Repair Program

Revenue for approved scheduled maintenance and special repair projects as defined by *EC §* 84660 et seq., and *California Code of Regulations* Section 57200 et seq. These funds are deposited in the **Capital Outlay Projects Fund**. If a district match is required it shall be transferred into the same fund for the designated project or purpose through an interfund transfer object code.

Instructional Improvement Grant

Revenue for developing, implementing, and testing alternative learning programs and services *(EC §*84381 et seq., and *CCR §*56650 et seq.).

"Loans" provided under the "Fund for the Improvement of Instruction" are nonrevenue receipts that are accounted for as Other Financing Sources – Proceeds of General Long-Term Debt.

Other Reimbursable Categorical Programs

All other revenue for specially funded projects where moneys are restricted for specific purposes such as Economic Development, Maintenance Allowance (*CCR §*54200), Employer-Based Training, Hazardous Substances Removal, and any other restricted program funding not identified above.

8670 State Tax Subventions

Homeowners' Property Tax Relief
Timber Yield Tax
Other State Tax Subventions

These accounts are used to record the amounts received or accrued from the State for tax revenues and revenues relating to subventions of State funds to replace reduced property taxes on owner-occupied property, agricultural land, motion pictures, wine and brandy products, etc. These revenues are treated as local property taxes for purposes of calculating a district's revenue level for each fiscal year (*EC §*84751).

Account 8670, State Tax Subventions, is the controlling account that summarizes amounts recorded in the following subsidiary classifications:

Homeowners' Property Tax Relief

Revenue for reimbursement of lost revenue due to homeowners' property tax exemptions pursuant to *GC §*16120.

Timber Yield Tax

Revenue from the tax on sales of privately owned timber distributed by the State in lieu of property tax revenue (*RTC §*38905).

Other State Tax Subventions

All other revenue for tax subventions, e.g., agricultural land preservation programs pursuant to the Williamson Land Act (*GC §*51200) and Farmland Security Zones (*GC §*51296).

8680 State Non-tax Revenues

State Lottery Proceeds
State Mandated Costs
Other State Non-Tax Revenues

These accounts are used to record non-tax revenues received or accrued from the State.

State Lottery Proceeds

Revenue for the district's allocation of State Lottery proceeds (*GC §*8880 et seq.). Current year lottery revenue that is not received by the end of the fiscal year shall be accrued.

Lottery revenues are **Unrestricted General Fund** revenues that "shall be used exclusively for the education of pupils and students". No funds shall be spent for acquisition of real property, construction of facilities, financing of research, or any other noninstructional purpose" (*GC* §8880.5). The portion of Lottery that is subject to Proposition 20 is restricted revenue and is to be recorded in the **Restricted General Fund**. (*GC* §8880.4)

Amounts expended from lottery revenues are excluded from the calculation of the Current Expense of Education for the purposes of determining compliance with the 50 Percent Law (*EC* §84362 and *CCR* §59200 et seq.). See Common Terminology: 50 Percent Law/Current Expense of Education.

State Mandated Costs

Revenues for reimbursement of State mandated costs resulting from passage of State legislation, (*GC* §17500 et seq.).

Reimbursements for State mandated costs are reported on a cash basis.

Other State Non-Tax Revenues

All other non-tax revenue received from the State.

8690 Other State Revenues

This account is used to record all other amounts received or accrued from the State not accounted for within other specific State Revenue object codes.

8800 Local Revenues

8810 Property Taxes
8820 Contributions, Gifts, Grants, and Endowments
8830 Contract Services
8840 Sales and Commissions
8850 Rentals and Leases
8860 Interest and Investment Income
8870 Student Fees and Charges
8890 Other Local Revenues

All revenues received or accrued from local sources, other than those classified as Federal or State revenues shall be recorded as Local Revenues. Revenues generated from instructional services performed under procurement contracts with Federal or State agencies are recorded as Local Revenue, Account 8830, Contract Services unless there is an external requirement to report them as Federal or State revenues. Account 8800, Local Revenues, is the controlling account that summarizes amounts recorded in Accounts 8810 through 8890.

8810 Property Taxes

8811 Tax Allocation, Secured Roll
8812 Tax Allocation, Supplemental Roll
8813 Tax Allocation, Unsecured Roll
8814 Voted Indebtedness, Secured Roll
8815 Voted Indebtedness, Unsecured Roll
8816 Prior Years Taxes
8817 Education Revenue Augmentation Fund (ERAF)
8818 Redevelopment Agency Funds – Pass-Through
8819 Redevelopment Agency Funds – Residual
8819 Redevelopment Agency Funds – Liquidation of Assets
8819.5 Redevelopment Agency Proceeds

These accounts are used to record amounts received as the district share of the one percent ad valorem property tax or of special taxes for voted indebtedness as authorized by statute. Property taxes are levied on the secured and unsecured rolls. *EC §* 84751 prescribes that these forms of property tax shall be used in calculating a district's revenue level for each fiscal year.

In accordance with *EC §* 84751(d), redevelopment property tax revenues received pursuant to *Health and Safety Code* Sections 33492.15, 33607.5, 33607.7, and 33676 (except those amounts allocated exclusively for educational facilities) are recorded in the applicable property tax account. Redevelopment property tax revenues allocated exclusively for educational facilities pursuant to these *Health and Safety Code* sections are recorded in Account 8890, Other Local Revenues in the Capital Projects fund. *Effective February 1, 2012, Redevelopment Agencies have been dissolved by State Law.*

For Redevelopment Revenue that is subject to AB 1290 the following applies:

> 47.5% portion of RDA revenues for post-AB 1290 projects: Report them in the local property tax revenue - object code 8818. Districts may not currently know which of the four Property Tax Accounts (secured, supplemental, unsecured, or prior years taxes) to use to report your 47.5% RDA revenues in the **General Fund – Unrestricted**.
>
> The 52.5% portion of RDA revenues for post-AB 1290 projects is designated by law for capital projects. These revenues will be recorded in object code 8890 in the **Capital Projects Fund.**

A brief note containing the total for the 47.5% portion of RDA revenues for post-AB 1290 projects and a separate total for the 52.5% portion of RDA revenues for post-AB 1290 projects is to be emailed to the State Chancellor's Office at the time the CCFS-311 is submitted

Property tax revenues are recorded on the modified accrual basis of accounting. All property taxes that are earned, measurable, and available (received within 60 to 90 days after the end of the fiscal year) should be accrued to the extent that the county considers the revenues to be prior year assessments. Measurability is improved by coordinating with the county auditor to determine the amount of property tax, if any, to accrue at the end of the fiscal year (i.e., those taxes which are collected but unapportioned). Property tax revenues received that are more or less than the accrual established in the prior year and are not the result of an error, as described in the Governmental GAAP Guide, should be recorded as an increase or abatement to the current-year revenue and not an adjustment to the beginning fund balance.

Account 8810, Property Taxes, is the controlling account that summarizes amounts recorded in the following subsidiary accounts:

8811 Tax Allocation, Secured Roll

Revenue for the district's share of the one percent ad valorem property tax on the secured roll.

8812 Tax Allocation, Supplemental Roll

Revenue for taxes on the supplemental roll. These taxes are on property that has changed hands since the last secured roll was issued.

8813 Tax Allocation, Unsecured Roll

Revenue for the district's share of the one percent ad valorem property tax on the unsecured roll.

8814 Voted Indebtedness, Secured Roll

Revenue from tax levies for voted indebtedness (*EC §§*15250, 74290) on the secured roll of the district. These revenues are recorded and accounted for in the Debt Service Fund only.

8815 Voted Indebtedness, Unsecured Roll

Revenue from tax levies for voted indebtedness (*EC §§*15250, 74290) on the unsecured roll. These revenues are deposited and accounted for in the Debt Service Fund only.

8816 Prior Years Taxes

Revenue from tax levies from prior years and adjustments to taxes reported in prior years, including delinquent secured and unsecured tax receipts, applicable penalties and interest and any tax sale proceeds of prior years.

Note: Prior year property tax revenues are **not** to be treated as adjustments to beginning balance.

8817 Education Revenue Augmentation Fund (ERAF)

Revenue from secured tax collections for ERAF.

8818 Redevelopment Agency Funds – Pass-Through Payments

Revenue from the tax portion of prior local redevelopment agency property tax as discussed previously. As noted above, Redevelopment Agencies have been dissolved by State Law effective February 1, 2012. Pass-through payments will be calculated as they were previously and made by the County Auditor. The tax portion for AB1290 and SB211 payments will continue to be recorded in Account 8818 in the General Fund and the facilities portion will be recorded in Account 8890 in the Capital Outlay Projects Fund. Agreements and 2% payments will remain 100% for facilities and be recorded in Account 8890 in the Capital Outlay Projects Fund.

8819 Redevelopment Agency Funds – Residual

Prior redevelopment agency funds that remain after all obligations have been paid will be distributed to the appropriate taxing entities. These funds are intended to offset state revenue and are not available for educational facilities purposes.

8819.5 Redevelopment Agency Funds – Liquidation of Assets

Proceeds from asset sales and other liquid assets will be distributed to the appropriate taxing entities. Assets may come from “Low and Moderate Income Housing Fund Distributions” or “Other Funds and Accounts Distribution”. These funds are intended to offset state revenue and are not available for education facilities purposes.

8820 Contributions, Gifts, Grants, and Endowments

Amounts received or accrued as contributions, gifts, grants, bequests, and endowments from private sources. Contributions may be restricted by the donor as to use, and are accounted for within the Trust of Agency Fund.

8830 Contract Services

Contract Instructional Services
Other Contract Services

These accounts record the amounts received or accrued for services rendered to local public or private agencies, companies, or individuals. Revenues generated from instructional services performed under procurement contracts with Federal or State agencies are recorded as Contract Services.

Account 8830, Contract Services, is the controlling account that summarizes amounts recorded in the following subsidiary classifications:

Contract Instructional Services

Revenue from contracted instructional services for other local public or private agencies (including federal and state agencies), companies, or individuals.

Other Contract Services

Revenue from all other contracted services, (e.g., transfers received by the Self-Insurance Fund from other funds of the district). (See Chapter 2, Self-Insurance Fund.)

8840 Sales and Commissions

Amounts received or accrued from commissions, sales of tickets to sporting, arts, or cultural events, and the sale of other goods or services such as food, publications, farm products, bookstore merchandise, and advertising.

The proceeds from the sale of general fixed assets are recorded in Account 8910, Proceeds of General Fixed Assets, Sale of Equipment and Supplies.

8850 Rentals and Leases

Amounts received or accrued from the rental or lease of land and buildings no longer needed by the district (*EC §*81360 et seq.) or charges for the use of athletic facilities, buildings, etc., by civic groups, the general public, and public agencies, including other districts and schools (*EC §*82537 et seq.).

Amounts from the rental or lease of land, buildings, and/or equipment to an enterprise fund of the district are also included in this account. If the rental charge includes maintenance and/or utilities, the entire amount is treated as rent. The rent received shall be treated as revenues to the General Fund or appropriate fund.

8860 Interest and Investment Income

Amounts received or accrued as interest earned on moneys held with the county treasurer or on other investments, including premiums and accrued interest at the time of sale of bonds, etc.

Interest and investment income shall be credited to the fund earning the revenue. Interest received on restricted money shall include the same restrictions as the principal. The Attorney General has issued an opinion (CV 75/238, dated 1/8/76) that, in effect, requires that interest paid for cash on deposit in the county treasury from sources which have imposed restrictions on expenditures shall be prorated to those sources.

The requirements for final disposition of earned interest will vary depending on the source of the principal, laws and regulations, and written conditions of gifts, grants, and contracts. Unless otherwise provided in law, regulations, or other legal requirements, interest earned shall be restricted to the purpose of the fund.

8870-8885 Student Fees and Charges

8871 Child Development Services
8872 Community Service Classes
8873 Dormitory
8874 Enrollment
8875 Field Trips and Use of Nondistrict Facilities
8876 Health Services
8877 Instructional Materials Fees and Sales of Materials
8878 Insurance
8879 Student Records
8880 Nonresident Tuition
8881 Parking Services and Public Transportation
8883 Student Center Fee
8884 Student Representation Fee
8885 Other Student Fees and Charges

These accounts are used to record the amounts received or accrued from authorized student fees and charges.

Expressed statutory authority is required to charge any mandatory student fee; however, optional student fees or charges may under certain circumstances be charged pursuant to the authority of the "permissive code" as set forth in *EC* §70902(a). If a fee must be paid as a condition of admission to a college; or as a condition of registration, enrollment, or entry into classes; or as a condition of completing the required classroom objectives of a course, the fee is mandatory (required) in nature.

http://extranet.cccco.edu/Divisions/Legal/Resources.aspx

Account 8870, Student Fees and Charges, is the controlling account that summarizes amounts recorded in the following subsidiary classifications:

8871 Child Development Services

Revenue from student development services. These revenues are accounted for in the **Child Development Fund.**

8872 Community Service Classes

Revenue from student fees for community service classes in civic, vocational, literary, health, homemaking, technical, and general education. This revenue account includes fees charged for class materials for community service classes.

Fees charged to students for such classes may not exceed the cost of maintaining the classes (*EC* §78300).

Community service classes include those in the fields of music, drama, art, handicraft, science, literature, nature study, nature contacting, aquatic sports, and athletics, which provide instruction contributing to the physical, mental, moral, economic, or civic development of the individual or groups enrolled therein.

8873 Dormitory

Revenue from rental of dormitories (*EC §*81670).

Revenues derived from dormitories constructed from the sale of bonds shall be deposited in Governmental Funds Group–Special Revenue Funds–**Revenue Bond Project Fund**. (See Chapter 2 for authorized uses of such revenues.)

8874 Enrollment

Revenue from student charges for enrollment fees authorized by *EC §§* 76300 and 76140(k) and *California Code of Regulations* Section 58500 et seq. Such fees are recorded as revenue in the current fiscal year if the related courses begin before the close of the spring term.

Enrollment fee revenue includes the full amount of the fees charged, regardless of whether the fees are collected. Accounts receivable must be established to record the revenue on enrollment fees charged for the spring term or earlier if such fees are not collected by year end. In accordance with GASB Statements 33 and 34 requirements, bad debts are to be treated as a contra-revenue rather than an expense for financial reporting purposes.

GASBS 34 Implementation Guide Q & A:

> **138. Q:** How should uncollectible *exchange* transaction revenues of governmental activities be reported in the statement of activities?
>
> **138. A:** Consistent with the requirements in Statement 33 and paragraph 100 , exchange revenues for governmental activities should be recognized *net of uncollectible amounts*.

Reporting of enrollment fee revenue to the State Chancellor's Office for apportionment purposes may not net the enrollment revenue against the contra account. Enrollment Fees are to be reported as the gross amount assessed regardless of collections.

Enrollment fees charged for instructional periods after the close of the spring term are recorded as deferred revenue in the current fiscal year.

The "merchant discount" (credit card service fee) associated with enrollment fees paid by credit card is accounted for as an operating expense of the district and not a reduction of the enrollment fee revenue. Students may be charged an amount equal to the "merchant discount" provided that use of the card is optional and the charge is allowed by the operating regulations of the credit card issuer. Such a charge is separately identified from enrollment fees and accounted for as Other Student Fees and Charges.

8875 Field Trips and Use of Nondistrict Facilities

Revenue from student charges authorized by *California Code of Regulations* Section 55220 and *EC §*76395 for the cost of field trips and student use of nondistrict facilities for physical education.

8876 Health Services

Revenue from student health fees authorized by *EC §*76355 for the support of district health supervision and services.

8877 Instructional Materials Fees and Sales of Materials

Revenue from mandatory student charges authorized by *EC §§*76365 and 81458 and student charges that are optional in nature provided that the fee is not in conflict or inconsistent with existing law and are not inconsistent with the purposes for which community college districts are established.

*EC §*76365 (implemented by *CCR §§*59400-59408) allows districts to require students to furnish certain of their own materials if all of the following conditions are met. The material is tangible personal property, is owned or controlled by the student, and has continuing value outside of the classroom setting (e.g., textbooks, tools, equipment, clothing, and materials necessary for a student's vocational training and employment). However, such materials may not be exclusively available from the district unless they are provided at the district's actual cost and: (1) the material is otherwise generally available but there are health and safety reasons for the district being the provider, or (2) the material is provided in lieu of other generally available but more expensive materials that would otherwise be required.

*EC §*81458 authorizes districts to charge students taking noncredit classes for materials that are necessary for the making of articles. The materials shall be sold at not less than the cost to the district and the article becomes the property of the student.

8878 Insurance

Revenue from student charges for athletic insurance (*EC §*32221), field trip insurance (*CCR §*55222), malpractice insurance, and other permissive student insurance charges.

8879 Student Records

Revenue from student charges for district administrative costs related to providing copies of student records (*EC* §76223).

8880 Nonresident Tuition

Revenue from nonresident tuition fee authorized by *EC* §76140 and Capital Outlay charges authorized by *EC* §76141.

A student who is not a resident of California is required under the uniform student residency requirements (*EC* §68000 et seq., and *CCR* §54000 et seq.) to pay a tuition fee, as prescribed by *EC* §76140, unless otherwise exempted by statute. (Example: AB 540 students)

Application fees charged to nonresident students in accordance with *EC* §76142 are reported as Other Student Fees and Charges and not Nonresident Tuition.

The nonresident tuition fee shall be set by the district's governing board not later than February 1 of each year for the Fall semester of the succeeding fiscal year. The district shall provide nonresidents with notice of nonresident tuition fee changes during the spring term before the fall term in which the change will take effect (*EC* §76140).

In addition to the nonresident tuition fee established pursuant to *EC* §76140, a community college district may charge nonresident students an amount not to exceed the amount that was expended by the district for capital outlay in the preceding fiscal year divided by the total full-time equivalent students of the district in the preceding fiscal year pursuant to *EC* §76141. Any fee charged pursuant to this section shall not exceed 50 percent of the nonresident tuition fee established pursuant to *EC* §76140 and shall be expended only for purposes of capital outlay, maintenance, and equipment.

8881 Parking Services and Public Transportation

Revenue from parking fees authorized by *EC* §76360 to be expended only for parking services or for reducing the costs to students and employees of using public transportation to and from the college. The revenues generated are restricted to the purposes noted here and are to be accounted for in the **Restricted General Fund**.

8883 Student Center Fee

Revenue for the purpose of financing, constructing, enlarging, remodeling, refurbishing, and operating a student center (*EC* §76375). These revenues are accounted for in the **Student Body Center Fee Trust Fund.**

8884 Student Representation Fee

Revenue for the support of governmental affairs representatives (*EC §*76060.5). These revenues are accounted for in the **Student Representation Fee Trust Fund.**

8885 Other Student Fees and Charges

Revenue from all other authorized student fees and/or charges, e.g., transportation services (*EC §*76360), course audits (*EC §*76370), and application fees for nonresident applicants that are citizens and residents of a foreign country (*EC §*76142). For more information of student fees see the Student Fee Handbook on the Chancellor's Office website in the legal affairs section.

8890 Other Local Revenues

Amounts received or accrued from all other local sources, such as fees for applicant or employee identification cards (*EC §*88024), parking and traffic fines (*Vehicle Code §*40200.3), and fees for returned/NSF checks, etc.

Account 8890 also includes redevelopment property tax revenues allocated exclusively for educational facilities, which are exempt from inclusion in the calculation of a district's revenue level for each fiscal year pursuant to *EC §*84751(d). These tax revenues are reported in the **Capital Projects Fund**.

8900   Other Financing Sources

8910 Proceeds from Sale of Capital Assets
8940 Proceeds from Long-Term Debt
8980 Incoming Transfers

Other Financing Sources include incoming transfers as well as proceeds from long-term debt and sale of fixed assets. These moneys are considered nonrevenue receipts.

8910 Proceeds from Sale of Capital Assets

Compensation for Loss of Capital Assets
Sale of Equipment and Supplies
Sale of Land and Buildings

Account 8910, Proceeds from Sale of Capital Assets, is the controlling account that summarizes amounts recorded in the following subsidiary classifications:

Compensation for Loss of Capital Assets

Amounts provided from sources such as joint powers arrangements and insurance carriers as compensation for the loss of general fixed assets.

Sale of Equipment and Supplies

Amounts provided from the sale of supplies and equipment no longer needed by the district (*EC* §81450 et seq.).

The proceeds received are to be credited to the fund from which the original acquisition expenditure occurred (*EC* §81453).

Sale of Land and Buildings

Amounts provided from the sale of land and buildings no longer needed as determined by the district governing board (*EC* §81360 et seq.).

Funds so derived must be used to meet district capital outlay needs and deposited in the **Capital Outlay Projects Fund**. If the district's governing board determines prior to sale that the district has no anticipated need for additional sites or building construction for a five-year period (*EC* §81363), the proceeds shall be deposited in the **General Fund** for discretionary purposes.

8940 Proceeds from Long-Term Debt

Sale of Bonds
Other Long-Term Debt

These subsidiary accounts are used to record the proceeds from the sale of bonds or from other long term financing. The gross proceeds from long-term debt should be recorded in these accounts. Underwriting and other fees are recorded as expenditures and not a reduction of the proceeds from the issuance of debt.

The net proceeds are held in the fund in which the money will be used. Resources accumulated for the repayment of general long-term debt are held in the Debt Service Fund.

Account 8940, Proceeds of Long-Term Debt, is the controlling account that summarizes amounts recorded in the following subsidiary classifications:

Sale of Bonds

Proceeds provided from the sale of bonds at par value pursuant to *EC* §§15100 et seq., and 81901 et seq.

The proceeds must be recorded and accounted for in the **Revenue Bond Construction Fund,** the **Capital Outlay Projects Fund** or the **General Obligation Bond Construction Fund** as appropriate (*EC* §§15146 and 81961). Expenses incurred for the sale of bonds may be paid from the proceeds of bond sales (*EC* §15145).

Other Long-Term Debt

Proceeds provided from financing on a long-term basis, such as for Emergency Apportionment (*CCR* §58316), energy loans, Instructional Improvement Loans (*CCR* §56680), Certificates of Participation (COP), etc.

8980 Incoming Transfers

Interfund Transfers-In
Intrafund Transfers-In
Other Incoming Transfers

Incoming Transfers primarily include either residual equity transfers (transfers of resources [money] from one fund to another, such as transfers of the residual balance of a discontinued fund to the General Fund) or operating transfers (such as transfers of General Fund moneys to the Debt Service Fund for repayment of indebtedness or fund operating subsidy).

Moneys received from sources such as foundations, auxiliary organizations, and the student body are not to be considered transfers but are revenue under Account 8820, Contributions, Gifts, Grants, and Endowments, or Account 8830, Contract Services.

Account 8980, Incoming Transfers, is the controlling account that summarizes amounts recorded in the following subsidiary classifications:

Interfund Transfers-In

Amounts, typically considered restricted, transferred in from other funds arising out of (1) binding legal agreements related to financing of facilities, such as amounts for debt retirement, interest, and required provisions for renewals and replacements of facilities not financed from other sources; or (2) grant agreements with government agencies, donors, and other organizations to match gifts and grants.

Incoming transfers from other funds at the discretion of the local governing board are typically considered unrestricted.

Intrafund Transfers-In

Amounts transferred within a fund. An example of an intrafund transfer is a transfer from one Subfund to another Subfund.

Other Incoming Transfers

All other transfers of money such as from lapsed or reorganized districts and from transfers not otherwise classified.

REVENUE ABATEMENTS

An abatement of revenue is the cancellation of part or all of any specific revenue previously recorded. Abatements generally occur when revenue is recorded before it is fully earned, measurable or available to pay liabilities of the current period.

When revenue received by a community college district must be returned to the source from which it is received or paid to another entity that is entitled to all or a portion of the receipts, the transaction shall be accounted as an abatement to revenue and not as a charge to an expenditure account. For example, the portion of parking citations that is remitted to the county for courthouse construction is recorded as an abatement of revenues from parking fines.

Revenue abatements are also recorded if a receivable is accrued that exceeds the actual amount of revenue received. However, abatements are generally only made to adjust estimated revenues to the actual revenues earned and not to adjust earned revenues to the amount collected. If a district has revenue that is uncollected, the full amount earned is recorded as revenue and the uncollectible amount is recognized as an expenditure. For example, if enrollment fees are charged and due from students, the full amount of enrollment fees must be recorded as revenue, regardless of whether they are collected.

Uniformity in accounting for abatements of revenue is an important part of establishing comparable fiscal records and reports.

Payments or cancellations of receivables that reduce previously recorded revenue must be accounted for by abating the revenue account originally credited for the fiscal year in which the revenue adjustment is made, irrespective of the fiscal year in which the revenue was originally recorded. In some cases such payments or cancellations of receivables may exceed the actual revenue for the fiscal year in which the abatement is made and thus result in negative balances in the accounts or entries reported.

The following kinds of transactions shall be accounted for as abatements of revenue:

> Refunds of receipts from Federal, State or local sources, such as taxes, grants, rentals, and fees which were recorded as revenue prior to becoming fully earned;
>
> Payments to other entities for collections on behalf of the entity which were recorded as revenue when collected (e.g., surcharges on citations for courthouse construction);
>
> Cancellation of receivables over-accrued in a prior period. However, revenues (e.g., enrollment fees) that are determined to be uncollectible are to be recorded as an expense of the district and not an abatement of revenues.
>
> Conditional donations when the condition cannot be fulfilled by the district/college; and reversal of payments made by checks with insufficient funds.

Chapter 4

Accounting for Expenditures and Other Outgo

Table of Contents

GENERAL

This chapter explains procedures for community college districts to use in accounting for expenditures (payments for employee compensation, goods, and services). This chapter prescribes the minimum accounting standards for classifying expenditures by fund, activity, and object, and for abating expenditures.

Detailed expenditure accounting serves several important purposes in that it:

- provides districts with a uniform method of recognizing and classifying expenditures;
- captures information that districts must report in various financial statements; and
- facilitates district planning and budget preparation by providing historical information on costs of activities and programs.

The classification of expenditures by fund, discussed in Chapter 2; Fund Structure, establishes the rules for determining the appropriate fund and the timing for recognition of the obligation.

In Governmental Funds and Expendable Trust Funds, expenditures are recorded in the accounting period in which the liability is incurred and will be paid with current resources (60-90 days of year-end) – modified accrual basis of accounting. In Proprietary Funds and Nonexpendable Trust Funds expenditures are recognized and recorded at the time the liability is incurred, regardless of the timing of the related cash flow – full accrual basis of accounting. Consequently, reported expenditures will include both actual disbursements and recorded liabilities.

Minimum accounting standards for classifying expenditures by categorical programs within the Governmental Funds Group are not prescribed by this manual. Districts have the additional responsibility to maintain appropriate expenditure control in order to satisfy particular funding source requirements. Examples of such programs include, but are not limited to:

Federal	Career and Technical Education Act (CTEA)
State	Extended Opportunity Programs and Services (EOPS)
Local	Parking Services

*CCR §*58307 limits district expenditures to the amount appropriated for each major expenditure classification as approved by the district governing board through adoption of the district budget (*CCR* §58305) or as amended by subsequent intrabudget transfers or other budget revisions. Because of this statutory control language, the budget, and all documents dealing with appropriations, must be prepared according to the same classification plan as that employed to account for expenditures.

CLASSIFICATION OF EXPENDITURES BY ACTIVITY

The classification of expenditures by activity reflects the purpose of the expenditures; it shows the aspect of college-district operations benefited by the expenditure. Generally, all activities are classified as either instructional or administrative and support. Some expenditures may directly benefit more than one activity and are properly allocable to more than one activity. Expenditures allocable to one or more activities may include any combination of objects of expenditure, such as salaries, fringe benefits, supplies, other operating expenses, and capital outlay. In this manual, the word "salaries" has the same meaning as the term "salaries and wages." While certain activities are recorded in a specific fund, some activities may be charged to multiple funds. For example, Activity 6900, Ancillary Services, such as bookstore or cafeteria should be recorded in the appropriate Special Revenue or Enterprise fund, while Activity 6500, Operation and Maintenance of Plant, may be applicable in multiple funds.

Descriptions of authorized instructional activities are contained in the *Taxonomy of Programs* (TOP) manual. Although the TOP manual provides the mechanism for detailed reporting of instructional activities, districts are required, for State fiscal purposes, to report instructional expenditures using a four digit account code comprised of the TOP two digit Discipline in the first two positions and two zero placeholders in the last two positions. Districts are strongly encouraged to maintain TOP detail, at the local level, to four positions for all direct instructional activities.

Descriptions of authorized Administrative and Support Activities (ASA) are contained in this chapter. Districts are required, for State fiscal purposes, to report administrative and support expenditures using a four-digit account code comprised of the ASA codes identified in this chapter. Districts may create subsidiary activity categories as needed.

Local district autonomy in priority-setting, budgetary allocation, and expenditure is to be maintained.

INSTRUCTIONAL ACTIVITIES

0100 Agriculture and Natural Resources
0200 Architecture and Related Technologies
0300 Environmental Sciences and Technologies
0400 Biological Sciences
0500 Business and Management
0600 Media and Communications
0700 Information Technology
0800 Education
0900 Engineering and Industrial Technologies
1000 Fine and Applied Arts
1100 Foreign Language
1200 Health
1300 Family and Consumer Sciences
1400 Law
1500 Humanities (Letters)
1600 Library Science
1700 Mathematics
1800 Military Studies
1900 Physical Sciences
2000 Psychology
2100 Public and Protective Services
2200 Social Sciences
3000 Commercial Services
4900 Interdisciplinary Studies
5900 Instructional Staff–Retirees' Benefits and Retirement Incentives

Expenditures incurred for instructional activities are classified by controlling accounts (CA) 0100 through 5900 as shown above. The direct costs of classroom instruction are recorded by discipline within Activities 0100 through 4900. Costs of instruction include expenses incurred in offering credit and noncredit courses approved, either individually or as a part of some larger program, by the Chancellor's Office. Also included are the salaries, benefits, and related expenses of those coordinators, supervisors, departmental chairpersons and their support staff whose duties are directly related to specific instructional activities. Directors or coordinators whose duties are not related to direct instructional activities, such as directors of EOPS and DSPS and their support staff, are not recorded in these activities but rather in the appropriate administrative and support activity to which their efforts are directed.

Activity 5900, Instructional Staff-Retirees' Benefits and Retirement Incentives, includes expenditures on behalf of retired faculty and prepayments for retirement incentives and benefits that cannot be identified to specific disciplines. Examples of these payments could be to a State retirement system, to a self insurance fund, joint powers authority or private insurer. Activity 5900 is to be used only to record amounts expended for a district's share of retirees' health and other post-employment benefits (OPEB) costs and for retirement incentive pay for instructors, and instructional aides whose salaries qualified for inclusion as salaries of classroom instructors (*CCR §*59204).

Also included in Activity 5900 are the prorated portions of the district's share of retirees' OPEB and retirement incentive pay for qualified staff who were not assigned full-time to instructional assignments. If staff performed instructional and noninstructional assignments in their last year of service, charges made to this activity shall be in the same proportion as the time assigned to instruction. (see Activity 6740, Noninstructional Staff-Retirees' Benefits and Retirement Incentives).

ADMINISTRATIVE AND SUPPORT ACTIVITIES

6000 Instructional Administration and Instructional Governance
6100 Instructional Support Services
6200 Admissions and Records
6300 Student Counseling and Guidance
6400 Other Student Services
6500 Operation and Maintenance of Plant
6600 Planning, Policymaking, and Coordination
6700 General Institutional Support Services
6800 Community Services and Economic Development
6900 Ancillary Services
7000 Auxiliary Operations
7100 Physical Property and Related Acquisitions
7200 Long-Term Debt and Other Financing
7300 Transfers, Student Aid, and Other Outgo
7900 Appropriation for Contingencies (for budgetary purposes only)

Expenditures incurred for administrative and support activities are classified by Activities 6000-7900 as shown above. The costs of administrative and support activities include expenses incurred in providing various noninstructional services to students, faculty, and the community, necessary to achieve the function of the institution.

The classification of Administrative and Support Activities presented here provides major and subsidiary reporting categories used in recording expenditures by activity. Districts may create subsidiary activity categories as needed.

While certain activities are recorded in a specific fund, some activities may be charged to multiple funds. For example, Activity 6900, Ancillary Services, such as bookstore or cafeteria should be recorded in the appropriate Special Revenue or Enterprise fund, while Activity 6500, Operation and Maintenance of Plant, may be applicable in multiple funds.

6000 Instructional Administration and Instructional Governance

6010 Academic Administration
6020 Course and Curriculum Development
6030 Academic/Faculty Senate
6090 Other Instructional Administration and Instructional Governance

This activity is used to record all expenditures associated with the administrative management of instructional activities. It includes the costs associated with the first level of administration immediately above the instructor. Positions at this level are commonly called (associate) deans of instruction. This activity includes salaries, benefits, and related expenses of these individuals and their support staff as well as the prorated portion of salaries, benefits and other expenses of faculty on release from instruction while serving on division or institutional committees, such as the Academic/Faculty Senate.

The costs of supervisors or coordinators and their support staff whose duties are specifically related to instructional activities are not recorded in this activity but rather in the appropriate TOP instructional activity (Activities 0100-4900). Also, directors or coordinators whose duties are not directly related to instructional activities, such as directors of EOPS and DSPS and their support staff, are not recorded in this activity but rather in the appropriate administrative and support activity to which their efforts are directed.

Activity 6000, Instructional Administration, is the controlling account that summarizes expenditures recorded in the following subsidiary activity categories:

6010 Academic Administration

Expenditures for current academic operations, including scheduling and starting of classes, identification and requisition of needed materials and equipment, and evaluation of instructors, courses, and programs.

6020 Course and Curriculum Development

Expenditures for activities established to improve or significantly add to instructional offerings. Costs of curriculum committees are included within this category even though some of their efforts are spent on current-year course administration problems.

6030 Academic/Faculty Senate

Expenditures for the prorated portion of salary, benefits and other expenses of faculty while serving on behalf of the Academic/Faculty Senate. This includes the salary and benefits of faculty released to serve on collective bargaining. Also included here would be support staff and other operating expenses.

6090 Other Instructional Administration and Instructional Governance

Expenditures for the prorated portion of salary, benefits, and other expenses of faculty while serving on instructional administrative and governance assignments that do not fall in the above categories (e.g., accreditation). Also included here would be support staff and other related operating expenses.

6100 Instructional Support Services

6110 Learning Center
6120 Library
6130 Media
6140 Museums and Galleries
6150 Academic Information Systems and Technology
6190 Other Instructional Support Services

Activity 6100, Instructional Support Services, is the controlling account that is used to record expenditures for services directly provided by the following operations as supplement to the instructional effort within the appropriate subsidiary activity category:

6110 Learning Center (Learning Resource Center)

Expenditures for the operation of the learning center. A learning center is defined as the specific location set aside for the general student body and faculty to supplement instructional activities and provide educational enrichment for students. Activities in the learning center may generate Full-Time Equivalent Students (FTES) for State funding purposes if all requirements for generating FTES are met. Direct costs incurred in generating FTES must be reported in the appropriate instructional activity.

The center may contain audio-visual and computer equipment and nonprint media such as tapes, slides, films, records, and programmed materials to assist students in their studies and may be located within the college library. The library, as used in this section, is not synonymous with the learning center.

Examples of activities conducted in the learning center include, but are not limited to, tutorial, self-study, programmed instruction, and language laboratory.

6120 Library

Expenditures for the operation of the general college library. The costs of department libraries and reference books primarily for the use of instructors and staff are recorded within the appropriate instructional activities.

6130 Media

Expenditures for general institution wide media (audio-visual) services, facilities, and equipment.

Examples include costs of teleconferencing, television and radio facilities, equipment, and personnel associated with providing media services for instructional programs where the costs are not separately identifiable to any specific instructional activities. Costs of television and radio operations beyond those for instructional services and support are recorded within Activity 7000, Auxiliary Operations.

Costs of services readily identifiable to one or several instructional activities are identified within those activities.

6140 Museums and Galleries

Expenditures for the operation of museums or galleries for collection, preservation, and exhibition of historical materials, art objects, scientific displays, etc.

6150 Academic Information Systems and Technology

Expenditures for instructional data processing and data management services. This activity is to be used if the district prorates or identifies instructional information systems expenditures and does not allocate such expenditures to individual instructional activities. (See Activity 6780, Management Information Systems.)

6190 Other Instructional Support Services

Expenditures for instructional support services not listed above.

6200 Administrative and Support Activities

6200 Admissions and Records

This activity is used to record all expenditures associated with student admissions and evaluations, including expenditures incurred in maintaining student records, statistics and reports, conducting transfer evaluations and registrations, and processing transcripts and degree certifications.

6300 Student Counseling and Guidance

6310 Counseling and Guidance
6320 Matriculation and Student Assessment
6330 Transfer Programs
6340 Career Guidance
6390 Other Student Counseling and Guidance

This activity is used to record all costs associated with formal student counseling and career guidance, but not costs associated with instructors' informal counseling. Costs of applicable activities include those associated with assisting students to select an occupation, to plan a program of study, or to deal with personal problems or other matters that affect academic performance. Costs of special testing services used to determine a student's aptitude for certain professions shall also be recorded as Student Counseling and Guidance activity expenditures.

This activity includes, but is not limited to, the salaries, benefits, and related expenses of counselors and support staff; operating expenses of the counseling office; supplies and materials; and testing equipment used by the counselors and guidance personnel.

Activity 6300, Student Counseling and Guidance, is the controlling account that summarizes expenditures recorded in the following subsidiary activity categories:

6310 Counseling and Guidance

Expenditures for general counseling and guidance.

6320 Matriculation and Student Assessment

Expenditures for the costs of instituting effective processes and services that are supportive of and aid in the success and assessment of students in establishing and achieving their educational goals.

6330 Transfer Programs

Expenditures for the costs associated with helping students determine requirements to transfer to other institutions of higher education.

6340 Career Guidance

Expenditures for career guidance.

6390 Other Student Counseling and Guidance

Expenditures for counseling and guidance activities not identified above.

6400 Other Student Services

6410 CalWORKS
6420 Disabled Students Programs and Services (DSPS)
6430 Extended Opportunities Programs and Services (EOPS)
6440 Health Services
6450 Student Personnel Administration
6460 Financial Aid Administration
6470 Job Placement Services
6480 Veterans Services
6490 Miscellaneous Student Services

This activity is used to record expenditures associated with providing to students the services listed above as subsidiary detail of Controlling Account 6400 when such services are not recorded within any other activity classification. It should be noted that these services generally are not programs and, therefore, not all program costs will necessarily be identified within any one activity. For example, the cost of processing a veteran's application for educational benefits should be recorded within Activity 6480, Veterans Services; but, the payment to the veteran should be recorded within Activity 7320, Student Aid.

Categorical programs, DSPS and EOPS, are treated separately within this activity because they are perceived and administered as separate entities within the district. The costs of other categorical programs are to be recorded in the applicable activity codes, such as Counseling and Guidance or Other Student Services. Costs of EOPS and DSPS directors and coordinators and their support staff are recorded in these activities.

Activity 6400, Other Student Services, is the controlling account that summarizes expenditures recorded in the following subsidiary activity categories:

6410 CalWORKS

Expenditures for administration of the DSPS program and for direct services to DSPS students, grants, or other direct aid to students. These payments may be made from the **Student Financial Aid Trust Fund**, or the **Restricted General Fund.**

6420 Disabled Students Programs and Services (DSPS)

Expenditures for administration of the DSPS program and for direct services to DSPS students, grants, or other direct aid to students. These payments may be made from the **Student Financial Aid Trust Fund**, or the **Restricted General Fund.**

6430 Extended Opportunities Programs and Services (EOPS)

Expenditures for administration of the EOPS program and for direct services to EOPS students, grants, or other direct aid to students. Direct payments may be made from the **Student Financial Aid Trust Fund**, or the **Restricted General Fund**.

6440 Health Services

Expenditures to provide medical, dental, psychiatric, and nursing services, as well as student health insurance.

Student Health Fee revenues are recorded in Account 8876, Health Services in the General Fund–Restricted Subfund. Health Services Fees collected are restricted to allowable health services expenditures in accordance with *EC §*76355(d) and *CCR §*54700 et seq. Any health services expenditures above the fees collected are from General Fund–Unrestricted Subfund moneys.

Districts subject to the maintenance-of-effort requirement of *EC §*76355(e) must separately identify these costs within this activity.

6450 Student Personnel Administration

Expenditures for college or district administration of student personnel activities, including costs of the dean of students, supporting staff and other operating expenses.

6460 Financial Aid Administration

Expenditures to administer grants, scholarships, loans, and other financial aid to students, including costs of determining student financial need.

Actual aid payments are recorded within Activity 7320, Student Aid.

6470 Job Placement Services

Expenditures for services to assist students in obtaining employment, such as providing job referral, assisting students to develop job finding skills, and coordinating on-campus interviews with employers.

Included here would be economic development activities, such as working with the community in the area of job creation and workforce development.

6480 Veterans Services

Expenditures to provide services to veterans and their dependents.

Applicable services would include the dissemination of information and verification of eligibility for educational benefits.

6490 Miscellaneous Student Services

Expenditures for other services for special student groups or the general student population.

Services include student transportation and coordination or referrals for housing. Special student groups include economically disadvantaged, women, and minorities. Although the Chancellor's Office does not require separate accounting of other costs, districts may need to maintain detailed records to fulfill the reporting requirements of other funding agencies or to facilitate budget preparation.

6500 Operation and Maintenance of Plant

6510 Building Maintenance and Repairs
6530 Custodial Services
6550 Grounds Maintenance and Repairs
6570 Utilities
6590 Other Operation and Maintenance of Plant

This activity is used to record all expenditures associated with the routine operation and maintenance of buildings and grounds.

The following are expenditures that should **not** be charged to this activity, but instead should be charged to Activity 7100, Physical Property and Related Acquisitions:

- purchase of land and buildings
- initial equipping of buildings
- purchase of equipment permanently affixed to buildings
- construction of buildings
- modifications that improve the functionality or extend the useful life of land or buildings
- nonroutine repair and maintenance of buildings and other structures (e.g., scheduled maintenance and special repair items defined under *EC §*84660)
- upgrades of telecommunications and information technology infrastructure

Repairs or replacements of equipment, including furniture, identifiable to specific activities are charged to those activities and not to Activity 6500, Operation and Maintenance of Plant.

Activity 6500, Operation and Maintenance of Plant, is the controlling account that summarizes expenditures recorded in the following subsidiary activity categories:

6510 Building Maintenance and Repairs

Expenditures for activities related to routine repair and maintenance of buildings and other structures, including preventive maintenance.

Repairs of items attached to and considered integral parts of buildings or other structures are also included.

6530 Custodial Services

Expenditures for custodial supplies and services.

6550 Grounds Maintenance and Repairs

Expenditures for the maintenance of landscapes and grounds.

Repairs of both grounds and grounds maintenance equipment, including underground systems such as sprinklers, are included. Repairs of underground systems not a part of the grounds, such as sewers, underground communications lines, and power lines, are reported within Activity 6590, Other Operation and Maintenance of Plant.

6570 Utilities

Expenditures for gas, water, electricity, telephone, and other utilities necessary for the operation of the physical plant.

6590 Other Operation and Maintenance of Plant

Expenditures for all other plant maintenance and operation expenditures, including equipment repairs not assignable to any other activity.

Repairs of underground systems not a part of the grounds, such as sewers, underground communications lines, and power lines, are reported within this activity.

6600 Planning, Policymaking, and Coordination

This activity is used to record all expenditures associated with executive-level activities, such as board meetings or long-range planning, associated with management of a district. Applicable costs include expenditures for governing board and senior executive officers. Expenses for executive support staff, as well as expenditures for operating costs of the executive offices including legal services, analytical studies, institutional budget planning, and facilities development are also included.

6700 General Institutional Support Services

6710 Community Relations
6720 Fiscal Operations
6730 Human Resources Management
6740 Noninstructional Staff-Retirees' Benefits and Retirement Incentives
6750 Staff Development
6760 Staff Diversity
6770 Logistical Services
6780 Management Information Systems
6790 Other General Institutional Support Services

This activity is used to record all expenditures incurred in conducting district business services operations. Activity 6700, General Institutional Support Services, is the controlling account that summarizes expenditures recorded in the following subsidiary activity categories:

6710 Community Relations

Expenditures in developing and maintaining relationships with the general community, alumni, or other constituents, and conducting community fund raising activities.

6720 Fiscal Operations

Expenditures for budget control, audits, accounting, and fiscal management of contracts, grants, and investments.

6730 Human Resources Management

Expenditures for personnel management and maintenance of employee records.

6740 Noninstructional Staff-Retirees' Benefits and Retirement Incentives

Expenditures for a district's share of retirees' health and other benefit costs and retirement incentive pay for noninstructional staff. Costs of benefits for retired instructional staff are to be charged to Activity 5900, Instructional Staff-Retirees' Benefits and Retirement Incentives.

Included are the prorated portions of the district's share of retirees' health and other benefit costs and retirement incentive pay for qualified staff who were not assigned full-time to noninstructional assignments. (See explanation of prorated costs under Activity 5900, Instructional Staff-Retirees' Benefits and Retirement Incentives.)

6750 Staff Development

Expenditures for staff development, including amounts expended in accordance with the provisions of *EC §*87150 et seq. (Assembly Bill 1725/88). Sufficiently detailed records must be maintained to assure compliance with specific funding requirements of statutes and applicable regulations. Salary cost of attendance in staff development activities should be charged to the attendees' regular salary activity. Costs such as transportation, tuition, etc. should be charged to Activity 6750.

6760 Staff Diversity

Amounts chargeable to enhancement of staff diversity, in accordance with the provisions of *EC §*87107 et seq. (Assembly Bill 1725/88), and applicable regulations.

6770 Logistical Services

Expenditures for campus security, fire protection, purchasing, warehouse and stores, environmental safety, insurance, central equipment and property management, garage and motor pool for staff transportation, and communication services such as reproduction, printing, noninstructional telecommunication services and mail services. As a district option, costs of services readily identified to one or more activities may be allocated accordingly. Monthly telephone usage and service charges are charged to Activity 6570, Utilities.

6780 Management Information Systems

Expenditures for noninstructional data processing and data management services. If a district prorates its information systems, the instructional portion could be allocated to the appropriate instructional activities or recorded within Activity 6150, Academic Information Systems and Technology.

6790 Other General Institutional Support Services

Expenditures for general institutional support services not listed above.

6800 Community Services and Economic Development

6810 Community Recreation
6820 Community Service Classes
6830 Community Use of Facilities
6840 Economic Development
6890 Other Community Services and Economic Development

This activity is used to record expenditures associated with providing general public services to the community-at-large or to business and special groups within the community. Applicable costs for community services include expenditures for conferences, lecture series, institutes, classes, and recreational activities, as well as the costs of providing facilities for the nonpartisan benefit of the community-at-large. Applicable costs for Economic Development include expenditures for education and services provided to the business community to advance California's economic growth and global competitiveness.

Activity 6800, Community Services and Economic Development, is the controlling account that summarizes expenditures recorded in the following subsidiary activity categories:

6810 Community Recreation

Expenditures to organize, promote, and conduct community recreation programs sponsored by the district**. Governing boards shall not expend State general fund moneys for this purpose.**

6820 Community Service Classes

Expenditures as authorized by *EC §*78300 et seq., and implementing regulations in CCR *§*55160 to provide instruction that contributes to the physical, mental, moral, economic, or civic development of individuals or groups enrolled therein, including the costs of contracted community service classes in music, drama, art, handicraft, science, literature, nature study, and athletics.

This excludes costs of courses approved by the Chancellor's Office either individually or as part of a credit or noncredit program, which are recorded within the applicable Instructional Activities 0100-4900. **Governing boards shall not expend State general fund moneys to establish and maintain community service classes.**

6830 Community Use of Facilities

Expenditures as authorized by *EC §*82537 et seq., to provide college buildings or grounds for public, literary, scientific, recreational, educational, or public agency meetings, or for the discussion of matters of general or public interest, subject to the limitations set forth in those sections.

6840 Economic Development

Expenditures pursuant to *EC §*66010.4(a)(3) and *GC §*15379.20 et seq., for services provided to the business community to advance California's economic growth and global competitiveness through education and services focusing on continuous workforce improvement, technology deployment, and business development. Expenditures for services to students should be recorded in the appropriate instructional or student services activity.

6890 Other Community Services and Economic Development

Expenditures for community services and economic development not identified above.

6900 Ancillary Services

6910 Bookstores
6920 Child Development Centers
6930 Farm Operations
6940 Food Services
6950 Parking
6960 Student and Co-curricular Activities
6970 Student Housing
6990 Other Ancillary Services

This activity is used to record all expenditures for the operation of ancillary services (generally defined as self-sufficient entities providing services to students, faculty, and staff). For most of the expenditures attributable to these activities, the appropriate Special Revenue Fund or Enterprise Fund, such as the Bookstore Fund, should be charged, rather than the General Fund. Examples of General Fund charges would be parking, co-curricular activities, and the incidental cost of administration or general support for these ancillary services activities. The operation of housing facilities, such as dormitories, are reported within this activity code.

Activity 6900, Ancillary Services, is the controlling account that summarizes expenditures recorded in the following subsidiary activity categories:

6910 Bookstores

Expenditures for the operation of district bookstores.

6920 Child Development Centers

Expenditures for day care centers; for learning laboratories for students enrolled in child development or child care programs, or for services to develop children's physical, mental, and educational skills.

6930 Farm Operations

Expenditures for farm operations.

6940 Food Services

Expenditures as authorized by *CCR §*59013 for food vending machines and cafeteria operations.

6950 Parking

Expenditures as authorized by *EC §*76360 for parking services and facilities which include the administration of and direct services related to the purchase, construction, and operation and maintenance of parking facilities.

6960 Student and Co-curricular Activities

Expenditures for student and co-curricular activities that the district has elected to provide above and beyond the regular instructional program. Co-curricular activities are activities and events that are an extension of classroom instruction or related community college programs. (Examples include the costs of such items as student newspapers, intramural athletics, intercollegiate athletics, and clubs.)

6970 Student Housing

Expenditures for the operation of dormitories and other housing facilities.

6990 Other Ancillary Services

Expenditures for all other ancillary services, including such items as student transportation services.

ADMINISTRATIVE AND SUPPORT ACTIVITIES

7000 Auxiliary Operations

7010 Contract Education
7090 Other Auxiliary Operations

This Activity is used to record expenditures within certain operations auxiliary to the regular instructional program, such as the operation of commercial rental property for income, that portion of radio or television station operations beyond that necessary for instruction and instructional services, or certain contract education classes.

This activity is not to be confused with auxiliary organizations formed under *EC §*72670 et seq.

Activity 7000, Auxiliary Operations, is the controlling account that summarizes expenditures recorded in the following subsidiary activity categories:

7010 Contract Education

Expenditures to conduct contracted classes that do not generate FTES (*CCR §*58050). Contract Education classes are distinguished from Community Service classes (Activity 6820) by their intent to exclusively serve selected clientele. Contract Education classes that generate FTES are to be reported within the applicable Instructional Activities 0100-4900.

7090 Other Auxiliary Operations

Expenditures for all other Auxiliary Operations.

7100 Physical Property and Related Acquisitions

This classification is used to record expenditures for capital outlay required in developing campus facilities. The following are examples of expenditures that should be charged to this activity:

- purchase of land and buildings
- initial equipping of buildings
- purchase of equipment permanently affixed to buildings
- construction of buildings
- modifications that improve the functionality or extend the useful life of land or buildings
- nonroutine repair and maintenance of buildings and other structures (e.g., scheduled maintenance and special repair items defined under *EC §*84660)
- upgrades of telecommunications and information technology infrastructure

The portion of the salaries and benefits of district personnel (e.g., Facilities and Information Technology managers, facilities planners, and support staff) related to the above expenditures are also charged to this activity.

If a district uses a day labor or force account, within the limits of the law, *PCC §*20650 et seq., for the above activities, the expenditures should be a direct charge to this activity.

Expenditures related to parking facilities are recorded within Activity 6950, Parking Expenditures for equipment purchased for a specific instructional or administrative and instructional support activity are recorded within that particular activity, except for initial equipping of buildings. Expenditures included within Activity 6500, Operation and Maintenance of Plant, would also not be recorded here.

7200 Long-Term Debt and Other Financing

7210 Long-Term Debt
7220 Tax Revenue Anticipation Notes (TRANs)
7290 Other Financing

This activity is used to record expenditures for principal, interest, and other costs (e.g., service charges) associated with long-term debt and interest and other costs associated with short-term debt.

7210 Long-Term Debt

Expenditures for payments of principal, interest, and other related service fees for bonds or other indebtedness [Object 7100, Debt Retirement (Long-Term Debt)]. This activity is also used to record the amount deducted from General Apportionment by the State Controller for repayment of emergency apportionment (*CCR §*58316).

7220 Tax Revenue Anticipation Notes (TRANs)

Expenditures for interest and related service fees for TRANs [Object 5000, Interest (Current Loans)].

7290 Other Financing

Expenditures for other financing.

7300 Transfers, Student Aid, and Other Outgo

7310 Transfers
7320 Student Aid
7390 Other Outgo

This activity is used to record transfers, student aid, and other outgo. Activity 7300, Transfers and Student Aid, is the controlling account that summarizes expenditures recorded in the following subsidiary activity categories:

7310 Transfers

Amounts transferred from one fund to another (interfund transfers) and amounts transferred to/from the General Fund Unrestricted Subfund and the General Fund Restricted Subfund (intrafund transfer), as well as amounts transferred to the district from a lapsed or reorganized community college district.

Transfers made as a temporary loan or otherwise intended to be reimbursed shall not be recorded here but shall be accounted for in the balance sheet accounts as "Due To" or "Due From."

7320 Student Aid

Expenditures for direct financial aid payments to or for students, as well as maintenance allowance paid under *CCR §*54200. Financial aid payments include direct financial aid (scholarships, grants, and loans) and payments to or for students for enrollment fees, books, supplies, and child care services, etc.

Work-study payments are reported as salaries within the activity receiving the benefit of the students' services.

7390 Other Outgo

Expenditures for other uses of funds such as bankruptcy losses, investment losses, and other outgo.

7900 Appropriation for Contingencies (for budgetary purposes only)

This activity is an appropriation classification only; no expenditures shall be recorded within this activity.

This activity is used to record that portion of the current fiscal year's appropriation, not designated for any specific purpose, and held available for transfer to specific appropriations as needed during the fiscal year.

This activity is not to be confused with the General Reserve, which is a balance sheet account used to record the reserve budgeted to provide operating cash in the succeeding fiscal year until local property taxes and State funds become available.

Transfers to/from contingencies must be approved by a two-thirds vote of the board of trustees (*CCR §*58307).

CLASSIFICATION OF EXPENDITURES BY OBJECT

District expenditures are classified both by activity and by object. Classification of expenditures by activity is explained in the preceding section of this chapter. In this manual, the word “salaries” has the same meaning as the term “salaries and wages”.

Expenditure classification by object is the accounting segregation of expenditures into seven major categories:

1000. Academic Salaries
2000. Classified Salaries and Other Nonacademic Salaries
3000. Employee Benefits
4000. Supplies and Materials
5000. Other Operating Expenses and Services
6000. Capital Outlay
7000. Other Outgo

Costs may be incurred for expenditures that include more than one object. Such costs are prorated on an equitable basis to the objects for services received. For example, if a faculty employee provides classroom instruction half time and acts as a student counselor half time, that individual’s salary must be prorated one-half to Object 1100, Instructional Salaries, Contract or Regular Status, and one-half to Object 1200, Noninstructional Salaries, Contract or Regular Status.

The classification by object presented here provides major and subsidiary reporting categories to be used in recording expenditures. Account numbers have not been prescribed for some subordinate reporting classes in order that districts have discretionary control over the assignment of account numbers. Districts may create subsidiary object categories as needed.

1000 Academic Salaries

1100 Instructional Salaries, Contract or Regular Status
1200 Noninstructional Salaries, Contract or Regular Status
1300 Instructional Salaries, Other
1400 Noninstructional Salaries, Other

This object is used to record all expenditures for salaries of employees in academic positions that require minimum qualifications established by the Board of Governors pursuant to *EC* §87356. (See *CCR* §53400 and *EC* §§§87001, 87002, and 87003 for definitions.) If an individual is occupying two positions, only one of which requires minimum qualifications, then only that portion of the individual’s salary related to the position requiring minimum qualifications shall be reported within Object 1000, Academic Salaries.

The employment status of Academic Employees is determined pursuant to *EC* §87477.

Object 1000, Academic Salaries, is the controlling account that summarizes expenditures recorded in the following subsidiary object categories:

1100 Instructional Salaries, Contract or Regular Status

Expenditures for the full or prorated portions of salaries of all employees in contract or regular faculty positions. Contract employee means an employee of a district who is employed on the basis of a contract in accordance with *EC §§§§* 87601, 87605, 87608, or 87608.5. Regular employee means an employee of a district who is employed in accordance with *EC §§§§* 87601, 87608, 87608.5, or 87609.

This object also includes the following expenditures:

- Prorated salaries of contract or regular instructors working a reduced load or whose assignment includes both instructional and noninstructional duties.
- Pro-rated salaries of administrators having a teaching assignment as part of their regular work assignment
- Salaries of instructors on sabbatical leave
- Extra duty days or assignments paid as a part of an instructor's regular salary

Salaries of instructors designated as temporary employees pursuant to *EC §*87477 and overload and stipend pay for instructors designated as contract employees or as regular employees are recorded within Object 1300, Instructional Salaries, Other, or Object 1400 Noninstructional Salaries, Other, as appropriate.

Authorized duties of academic employees whose salaries are to be reported in this object account include, but are not limited to:

- Classroom instruction to students
- Preparation for and evaluation of classroom work
- Extracurricular activities that arise out of, or are extensions of, classroom work
- Duties ordinarily assigned to faculty personnel in connection with the custody and control of students in situations other than in the classroom (work experience programs or field trips)
- Intermittent duties as assigned either individually or in connection with committee work, in-service training, or institutes whose purpose is the evaluation or improvement of the educational program in the district

Any release time or additional stipends paid for coordinators, supervisors, and departmental chairs are noninstructional and recorded in Object 1200.

1200 Noninstructional Salaries, Contract or Regular Status

Expenditures for the full and prorated portions of salaries of employees on contract for regular noninstructional academic positions. Districts shall record such noninstructional salaries within the applicable sub-object:

Educational Administrators

Expenditures for the salaries of educational administrators. *EC §*87002 and *CCR §*53402 define "educational administrator" as an administrator who is employed in an academic position designated by the governing board of the district as having direct responsibility for supervising the operation of or formulating policy regarding the instructional or student services program of the college or district. Educational administrators include, but are not limited to, chancellors, presidents, and other supervisory or management employees designated by the governing board as educational administrators.

Other

Expenditures for the salaries of academic employees, other than educational administrators, in contract or regular noninstructional academic positions. This includes librarians, counselors, community college health professionals, disabled students programs, and services professionals, extended opportunity programs and services professionals, and faculty on noninstructional assignments. Sabbatical Leave for these employees is also included.

Any release time or additional stipends paid for coordinators, supervisors, and departmental chairs are noninstructional and recorded in Object 1200.

1300 Instructional Salaries, Other

Expenditures for the full or prorated portions of salaries of instructors who have **not** been designated as contract or regular employees. Included are the salaries of instructors designated as temporary employees pursuant to *EC §*87477 and overload and stipend pay for instructors designated as contract employees or as regular employees.

1400 Noninstructional Salaries, Other

Expenditures for the full and prorated portions of salaries of noninstructional academic employees who have **not** been designated as contract or regular employees. Districts shall record such noninstructional salaries within the applicable subobject:

Educational Administrators

Expenditures for the salaries of educational administrators. *EC §*87002 and *CCR §*53402 define "educational administrator" as an administrator who is employed in an academic position designated by the governing board of the District as having direct responsibility for supervising the operation of or formulating policy regarding the instructional or student services program of the college or district. Educational administrators include, but are not limited to, chancellors, presidents, and other supervisory or management employees designated by the governing board as educational administrators.

Other

Expenditures for the salaries of academic employees, other than educational administrators, in positions **not** designated as contract or regular noninstructional academic positions. This includes librarians, counselors, disabled students programs and services professionals, extended opportunity programs and services professionals, and faculty on noninstructional assignments.

2000 Classified and Other Nonacademic Salaries

2100 Noninstructional Salaries, Regular Status
2200 Instructional Aides, Regular Status
2300 Noninstructional Salaries, Other
2400 Instructional Aides, Other

This object is used to record all expenditures for salaries of employees in positions that **do not** require minimum qualifications established by the Board of Governors pursuant to *EC §*87356. This includes the salaries of employees in the classified service as defined in *EC §*87001.5 and those positions and employees specifically exempted by *EC §§*88003 and 88076 from the classified service. These exempted positions include, but are not limited to, full-time and part-time students employed part-time in any college work-study program or in a work experience education program conducted by a district and which is financed by State or Federal funds, professional experts employed on a temporary basis for a specific project, and apprentice positions.

Object 2000, Classified and Other Nonacademic Salaries, is the controlling account that summarizes expenditures recorded in the following subsidiary object categories:

2100 Noninstructional Salaries, Regular Status

Expenditures for the full and prorated portions of salaries of employees in regular classified and other regular nonacademic positions. *EC §*88001 defines "regular" as a classified employee who has probationary or permanent status.

This object may include, but is not limited to, the salaries of administrators not designated as academic administrators by the district governing board, professionals, supervisors, purchasing agents, clerical, maintenance workers, custodians, gardeners, telephone operators, security personnel, and data processing staff.

Administrators and Supervisors

Expenditures for salaries of administrators and supervisors as defined in *EC §*84362.

Other

Expenditures for salaries of employees in regular classified positions that are not designated as administrators and supervisors.

2200 Instructional Aides, Regular Status

Expenditures for the full and prorated portions of salaries paid to instructional aides (defined in *EC §*88243) who have been designated as regular employees. Overtime paid to instructional aides who have regular status is recorded within Object 2400, Instructional Aides, Other. These expenditures must be separated into the following subobjects:

Direct Instruction

Expenditures for the full and prorated portions of salaries paid to employees who are (a) assigned by governing board designation the basic title of "Instructional Aide", or any other appropriate title that denotes the employees' duties include instructional tasks, and (b) employed to assist instructors in classroom instruction tasks during any portion of their duties (per *EC §*84362, the 50 Percent Law). Employees providing students with assistance and training in computer labs can be classified as instructional aides if they qualify under *EC §*84362.

An employee shall be deemed to be under the supervision of an instructor for the purpose of *EC §*84362 if the employee performs duties under the direction of an instructor.

Other

Although *EC §*88240 et seq. (and related regulations in *CCR §*59200 et seq.), are liberal in their definition of instructional aide, the intent of *EC §*84362 (the 50 Percent Law) restricts instructional aide salaries, that may be claimed as "salaries of classroom instructors" to salaries for the direct instruction of students. Therefore, instructional aide salaries must be segregated into those that participate in direct instruction of students and all others.

2300 Noninstructional Salaries, Other

Expenditures for the full and prorated portions of salaries of nonacademic employees that **do not** have regular status or who are paid for special work in excess of their regular work schedule, as well as overtime paid to nonacademic employees who have regular status. This object may include, but is not limited to, the salaries of student help, clerical staff, administrative personnel, professional staff, maintenance workers, custodians, gardeners, food service staff, telephone operators, transportation staff, and security personnel. Districts shall record such nonacademic salaries within the appropriate subobject:

Administrators and Supervisors

Expenditures for the salaries of nonacademic administrators and supervisors as defined in *EC §*84362.

Other

Expenditures for the salaries of employees in classified positions or other nonacademic positions that are not designated as administrators and supervisors.

2400 Instructional Aides, Other

Expenditures for the full and prorated portions of salaries of instructional aides (defined in *EC §*88243) that **do not** have regular status as well as overtime paid to instructional aides who have regular status. Such instructional aide salary expenditures must be separated into the following subobjects:

Direct Instruction

Expenditures for the full and prorated portions of salaries paid to employees who are (a) assigned by governing board designation the basic title of "Instructional Aide" or any other appropriate title which denotes that the employees' duties include instructional tasks, and (b) employed to assist instructors in classroom instructional tasks during any portion of their duties (per *EC §*84362, the 50 Percent Law). Employees providing students with assistance and training in computer labs can be classified as instructional aides if they qualify under *EC §*84362.

An employee shall be deemed to be under the supervision of an instructor for the purpose of *EC §*84362 if the employee performs duties under the direction of an instructor.

Other

Although *EC §*88240 et seq., are liberal in their definition of instructional aide, the intent of *EC §*84362 (the 50 Percent Law) restricts instructional aide salaries that may be claimed as "salaries of classroom instructors" to those for the direct instruction of students. Therefore, instructional aide salaries must be segregated into those that participate in the direct instruction of students and all others.

3000 Employee Benefits

3100 State Teachers' Retirement System (STRS) Fund
3200 Public Employees' Retirement System (PERS) Fund
3300 Old Age, Survivors, Disability, and Health Insurance
3400 Health and Welfare Benefits
3500 State Unemployment Insurance
3600 Workers' Compensation Insurance

3700 Local/Alternative Retirement Systems
3900 Other Benefits

This object is used to record all expenditures for the employer's share of contributions to retirement plans, as well as the costs of health and welfare benefits for current and retired employees and their dependents.

Districts may adopt either the cash basis or accrual basis for accounting for post-retirement benefits. If the district uses the cash basis for accounting, an actuarial study shall be conducted to determine the unfunded liability associated with retiree health benefits. At a minimum the total cost of the unfunded liability shall be disclosed in the footnotes of the district's audited financial statements.

Using the accrual basis, funded and unfunded liabilities associated with providing postretirement benefits to active employees and retirees are reflected in the district's financial records, as well as the cost associated with the annual funding requirements. With this accounting method, districts may charge categorical programs for the projected future benefit costs for current employees assigned to the program. The benefit costs for retirees who were employed by the district in a categorical program may not be charged to such program funds. No matter which method is used, the employer's share of health and welfare benefit costs for all retired employees of the district is recorded within the appropriate subobject account in Object 3400, Health and Welfare Benefits.

Both STRS and PERS accounts may typically reflect employer contributions for academic and classified staff. PERS and STRS permit any employee who has been covered by one system and who takes a position covered by the other to choose which to be covered by. For example, if an instructor has been in STRS for a number of years and then obtains a classified position covered by PERS, the employee may elect to continue under STRS and retain the accrued credits under that system rather than starting anew under PERS.

Object 3000, Employee Benefits, is the controlling account that summarizes expenditures in the following subsidiary object categories:

3100 State Teachers' Retirement System (STRS) Fund

Expenditures for payments to STRS on behalf of employees. STRS expenditures shall be separated into the following accounts:

Academic Instructors and Instructional Aides (Direct Instruction)
Expenditures as retirement contributions for employees providing or assisting in providing instruction to students. Applicable costs are for instructors and direct instruction-related instructional aides whose salaries are reported within Objects 1100, 1300, 2200 (Direct Instruction), and 2400 (Direct Instruction).

Classified and Other Nonacademic Employees

Expenditures for retirement contributions for classified and other nonacademic employees whose salaries are reported within Objects 2100, 2200 (Other), 2300, and 2400 (Other).

Instructional aide costs recorded here are those that are not related to direct instruction.

Administrators and Supervisors

Expenditures for applicable retirement contributions for administrators and supervisors as defined in *EC §*84362(2). (See Appendix A for definitions of these terms.)

Other

Expenditures for applicable retirement contributions for employees in classified positions or other nonacademic positions that are not designated as administrator and supervisors.

Other Academic Employees (Noninstructional)

Expenditures for retirement contributions for employees whose position is academic but who are noninstructional.

Related salaries are recorded within Objects 1200 and 1400.

Educational Administrators

Expenditures for applicable retirement contributions for educational administrators (*EC §*87002, *CCR §*53402(c)).

Other

Expenditures for applicable retirement contributions for academic employees other than educational administrators.

The remaining classifications of employee benefit objects of expenditures are based upon the same definitions of employee types that distinguish particular State Teachers' Retirement System Fund expenditures. Rather than reiterate these definitions within each following classification, the remaining employee benefit objects are presented without narrative. Districts shall record benefits for non-STRS employees with the same disaggregation as used in the STRS employee benefit object code narrative above.

3200 Public Employees' Retirement System (PERS) Fund

Academic Instructors and Instructional Aides (Direct Instruction)
Classified and Other Nonacademic Employees
    Administrators and Supervisors
    Other
Other Academic Employees (Noninstructional)
    Educational Administrators
    Other

3300 Old Age, Survivors, Disability, and Health Insurance (OASDHI also known as OASDI or FICA). (Includes OASDHI Medicare for STRS employees not otherwise covered by OASDHI.)

Academic Instructors and Instructional Aides (Direct Instruction)
Classified and Other Nonacademic Employees
    Administrators and Supervisors
    Other
Other Academic Employees (Noninstructional)
    Educational Administrators
    Other

3400 Health and Welfare Benefits

Academic Instructors and Instructional Aides (Direct Instruction)
Classified and Other Nonacademic Employees
    Administrators and Supervisors
    Other
Other Academic Employees (Noninstructional)
    Educational Administrators
    Other

The employer's share of health and welfare benefit costs for all current and retired employees of the district is recorded within the appropriate subobject account in Object 3400. This includes the normal cost associated with OPEB. See Chapter 6.

3500 State Unemployment Insurance

Academic Instructors and Instructional Aides (Direct Instruction)
Classified and Other Nonacademic Employees
    Administrators and Supervisors
    Other
Other Academic Employees (Noninstructional)
    Educational Administrators
    Other

3600 Workers' Compensation Insurance

Academic Instructors and Instructional Aides (Direct Instruction)
Classified and Other Nonacademic Employees
    Administrators and Supervisors
    Other
Other Academic Employees (Noninstructional)
    Educational Administrators
    Other

3700 Local/Alternative Retirement Systems

Academic Instructors and Instructional Aides (Direct Instruction)
Classified and Other Nonacademic Employees
    Administrators and Supervisors
    Other
Other Academic Employees (Noninstructional)
    Educational Administrators
    Other

3900 Other Benefits

Academic Instructors and Instructional Aides (Direct Instruction)
Classified and Other Nonacademic Employees
    Administrators and Supervisors
    Other
Other Academic Employees (Noninstructional)
    Educational Administrators
    Other

The employer's share of other benefits, including golden handshakes, for all employees and retirees employees of the district are recorded within the appropriate subobject account in Object 3900. Employer's matching of Tax Sheltered Annuities and cash payments in lieu of health benefits shall be recorded within this object.

4000 Supplies and Materials

Software
Books, Magazines and Periodicals
Instructional Supplies and Materials
Noninstructional Supplies and Materials

This object is used to record all expenditures for instructional and noninstructional supplies and materials, including costs of freight, sales/use tax and handling charges.

Supplies and materials are items that are expendable and quickly consumed or easily broken, damaged, or lost. For distinguishing between supplies and equipment see Appendix D.

Included in this object are instructional, office, library, medical, food and food service supplies as well as tests, periodicals, magazines, pictures, maps, computer software, and other expendable items having a useful life of less than one year. Also included are supplies and materials used in the care and upkeep of equipment, buildings and grounds and other like items.

Object 4000, Supplies and Materials, is the controlling account that summarizes expenditures in the following subsidiary object categories:

Software

Expenditures for software purchases with an initial cost of less than the district's capital outlay threshold should be accounted for in object code 4000. Expenditures for payments to firms providing software licensing are recorded within Object 5000. Software purchases with an initial useful life in excess of one year may be classified as equipment in Object 6400. For additional information, see Appendix D, *Guidelines for Distinguishing Between Supplies and Equipment*. The account codes for software licensing are also described in object codes 5000, Rents and Leases, and object code 5000, Repairs and Maintenance. Account codes for the purchase of a perpetual license agreement is included in object code 6400, Equipment.

Books, Magazines and Periodicals

Expenditures for books, magazines, and periodicals other than those purchased for the district's library. Books purchased for a department/division library are to be recorded within this object as a supply. See Object 6300, Library Books for expenditures related to the college library.

Instructional Supplies and Materials

Expenditures for supplies to be used by students, faculty and other personnel in connection with an instructional program.

Noninstructional Supplies and Materials

Expenditures for supplies and materials used in institutional support services.

5000 Other Operating Expenses and Services

Audit
Contract Services
Depreciation
Dues and Membership
Election

Insurance
Interest
Legal
Personal and Consultant Services
Postage
Rents and Leases
Repairs and Maintenance
Self-Insurance Claims
Travel and Conference Expenses
Utilities and Housekeeping Services
Other

This object is used to record all expenditures for services, leases, rents, travel, and other operating expenses.

Object 5000, Other Operating Expenses and Services, is the controlling account that summarizes expenditures in the following subsidiary object categories:

Audit

Expenditures for the annual financial and compliance audits conducted pursuant to *EC §*84040(b) and other audit costs.

Contract Services

Expenditures for payments to firms providing services such as security, armored transport, hazardous material disposal, etc. This object also includes contract services for another entity such as a joint powers agency to administer a self-insurance fund for the district and contracted expenses for Instructional Services Agreements (ISA's). See Appendix C.

Depreciation

Expenditures for the depreciation of exhaustible, income producing assets. This object is for use only in the **Proprietary Funds** and **Nonexpendable Trust Funds** utilizing the full accrual basis of accounting.

Dues and Membership

Expenditures as fees for district membership in any authorized society, association, or organization, and for membership fees of the governing board, its members, or its employees who are required to join a society, association, or organization because of their position.

Election

Expenditures for election services provided by the county (*Elections Code §*10002).

Insurance

Expenditures for all forms of fire, casualty, or liability insurance for the district. Also included are costs of property appraisals for insurance purposes, any bonds safeguarding the district against losses resulting from the actions of its employees and insurance for students participating in intercollegiate athletics.

Payments to a self-insurance fund are described in Chapter 2, Fund Structure. Excluded is the employer's share of benefits recorded within Object 3000, Employee Benefits. Those items of health, dental, and workers' compensation insurance expenses are employee benefits, not insurance to the benefit of the district.

Interest (Current Loans)

Expenditures for interest on Tax Revenue Anticipation Notes (TRAN) or other loans used to finance operating expenses.

Legal

Expenditures as assessments for other than capital improvements (including State assessments for non use of school sites), advertisements of bond issues, and other advertisements required by law, judgments, and lawyers' fees.

Personal and Consultant Services

Expenditures as payments for contracts for personal or consultant services provided by an individual or firm. This object includes expenditures for the cost of surveys and appraisals. Appraisals and surveys in connection with site purchases shall be recorded within Object 6100, Sites and Site Improvements.

Postage

Expenditures for sorting, handling, shipping and postage of mail and documents.

Rents and Leases

Expenditures and payments for rent or lease of land, athletic fields, equipment, and buildings; payments to independent vendors for transportation.

Renewable software licensing expenditures with an expected useful life in excess of one year are considered a rent or lease obligation and accounted for as such within the Rents and Leases sub object code.

Amounts expended for lease purchase agreements (including perpetual licensing) are recorded within Object 6000, Capital Outlay.

Repairs and Maintenance

Expenditures for payments to independent vendors for repairs and maintenance to buildings or equipment that do not extend the usefulness of the buildings or equipment (including maintenance agreements on equipment and software) are accounted for within this sub object code.

Self-Insurance Claims (Self-Insurance Fund Only)

Expenditures for payments and/or accrued costs for claims to a self-insurance fund.

This account is for use only by districts maintaining a Self-Insurance Fund. Payments to an insurance joint powers agency are treated as insurance expense in the General Fund or applicable special fund, such as the Bookstore Fund; they are not to be shown as a Self-Insurance Fund.

Travel and Conference Expenses

Expenditures for per diem and actual, necessary expenditures incurred by employees, board members, and other district representatives for authorized meetings, transportation (including mileage allowance), meals, and lodging.

Utilities and Housekeeping Services

Expenditures as payments for water, fuel, light, power, telephone (including internet or on-line service), waste disposal, laundry, dry cleaning, and other similar expenses (including contracts for these services) are accounted for within this sub object code.

Other

Expenditures for loan costs, physical examinations, fingerprinting, damage to personal property, cash variances, advertisements not required by law and all other operating costs not identifiable within any other Object 5000 category.

6000 Capital Outlay

6100 Sites and Site Improvements
6200 Buildings
6300 Library Books
6400 Equipment

This object is used to record all Capital Outlay expenditures. Included are amounts paid for the acquisition of capital assets or additions to capital assets; land or existing buildings; improvements of grounds; building construction, remodeling, or additions; and equipment.

Lease purchases (agreement constitutes a purchase) shall be recorded appropriately as Sites, Buildings, or Equipment. A lease without option or intent to purchase is recorded within Object 5000, Rents and Leases.

Object 6000, Capital Outlay, is the controlling account that summarizes expenditures recorded in the following subsidiary object categories:

6100 Sites and Site Improvements

Expenditures for this sub object shall be recorded by the prescribed subsidiary accounts:

Sites

Expenditures for the purchase of land and incidental expenses of site acquisition, such as appraisal fees, title search and title insurance, surveys, and condemnation proceedings and fees.

If the site is not acquired, the incidental costs must be recorded within Object 5000, Other Operating Expenses and Services.

Site Improvement

Expenditures for the costs of developing new sites or improving existing sites. Applicable expenditures include:

- landscape grading, seeding, and planting trees and shrubs;
- constructing sidewalks, roadways, retaining walls, sewers, and storm drains;
- installing hydrants;
- treating soil and surfacing athletic fields and tennis courts;
- furnishing and installing fixed playground apparatus, flagpoles, gateways, fences, and underground storage tanks that are not parts of building service systems;
- demolition work in connection with improvement of sites; and special assessments against the district for capital improvements, such as streets, curbs, sewers, drains, and pedestrian tunnels on or off district property.

Parking lots and fencing may be treated as land improvements because they are typically adjacent to the buildings that they service and have a much shorter life than long-lived infrastructure assets as defined by GASB. Furthermore, these assets serve different functions than infrastructure assets and are considered part of the adjacent building. (Accounting Advisory No. 2000-01).

6200 Buildings

Expenditures for the costs of construction or purchase of new buildings, additions to existing buildings, and replacement of obsolete buildings.

Costs of construction include, but are not limited to, advertising; architectural and engineering fees; blueprinting and inspection services; demolition work in connection with construction of new buildings; tests and examinations; installation of plumbing, electrical, sprinkling, or warning devices; and the installation of built-in fixtures, such as heating, ventilating, and their attachments. Costs of purchase include fees for inspection, transfer title insurance, etc.

6300 Library Books

Expenditures for the purchase of books, magazines, periodicals and non-print media for the college library. Non-print media includes the costs of electronic services for books, magazines, periodicals and other library resources which are available through electronic subscriptions.

The purchase of books, magazines, periodicals, and non-print media for department/division libraries shall be recorded within Object 4000, Books, Magazines and Periodicals under the appropriate Instructional Activity.

6400 Equipment

Expenditures for the purchase of tangible property with a useful life of more than one year, other than land or buildings and improvements thereon (*EC §*35168).

Expenditures for intangible assets are also charged to object code 6400 if they have a value greater than the district's capital outlay threshold and an initial useful life longer than one year. Intangible assets may include: easements, patents, intellectual property, and software both internally generated and purchased. The initial costs to implement, including licensing costs, for both internally generated and off the shelf software should be capitalized in accordance with the district's capitalization policy. Subsequent outlays for maintenance and licensing are generally expensed unless they include modifications that add capacity or efficiency to the software that defers obsolescence and results in an extension of the useful life of the software. Modifications that do not result in added capacity or efficiency or result in an extension of the useful life of the software should be charged to the repairs and maintenance object code 5000.

See Appendix D, *Guidelines for Distinguishing Between Supplies and Equipment*.

Districts shall maintain a historical inventory, audit trace inventory system, or any other acceptable inventory system that contains the description, name, identification numbers, original cost, date of acquisition, location, and time and mode of disposal for all items of equipment that cost or had a market value at time of acquisition in excess of five thousand dollars ($5,000) or the district adopted capitalization threshold. Districts retain authority to inventory assets at a lower level if there is local need to do so, but the $5,000 level is the uniform system level for capitalization and depreciation. (Accounting Advisory No. 2001-01)

Built-in fixtures are an integral part of the building, or building service system, and are reported in Object 6200, Buildings.

Expenditures for equipment purchases shall be recorded by the prescribed subsidiary account:

New

Expenditures for the purchase of new equipment, or equipment of different quality or capacity, or restoration of equipment (necessitated by casualty loss).

Replacement

Expenditures for the identical replacement of equipment (necessitated by normal use) on a piece-for-piece basis to perform the same function(s).

Equipment that differs in capacity, function, or quality shall be considered new equipment.

7000 Other Outgo

7100 Debt Retirement (Long-Term Debt)
7200 Intrafund Transfers-Out
7300 Interfund Transfers-Out
7400 Other Transfers
7500 Student Financial Aid
7600 Other Student Aid
7900 Reserve for Contingencies

This object is used to record other expenses and nonexpenditure disbursements.

Object 7000, Other Outgo, is the controlling account that summarizes expenditures recorded in the following subsidiary object categories:

7100 Debt Retirement (Long-Term Debt)

Debt Reduction

Expenditures for the costs of redeeming long-term bonds or other indebtedness sold for authorized purposes under *EC §§*15100 or 81901 et seq., such as for purchasing land, constructing or purchasing buildings, equipping buildings, etc. This object is also used to record the amount deducted from General Apportionment by the State Controller for repayment of emergency apportionment (*CCR §*58316). The interest portion of the deduction is recorded below.

Debt Interest and Other Service Charges

Expenditures as the costs of interest and related service fees for bonds or other indebtedness.

Interest on loans to finance operating expenses (e.g., Tax Revenue Anticipation Notes) is to be recorded within Object 5000, Other Operating Expenses and Services, Subobject Interest (Current Loans).

7200 Intrafund Transfers Out

Intrafund transfers are the transfer of moneys between a subfund of a district.

7300 Interfund Transfers-Out

Interfund transfers are money that is taken from one fund and added to another fund without an expectation of repayment. Generally, moneys can be transferred only when the use of the moneys in the receiving fund is not inconsistent with any restriction on its use in the sending fund. An example of an interfund transfer would be the required match for scheduled maintenance that is transferred from the **General Fund** to the **Capital Outlay Projects Fund**.

It should be noted that cash held in any fund may be available for temporary (less than one year) borrowing from one or more funds to another fund to be used for the payment of obligations, provided no provisions to the contrary exist. Such borrowings are not reported as a transfer, but are reflected in the balance sheet accounts “Due to Other Funds” and “Due from Other Funds”.

Payments to self-insurance funds are described in Chapter 2, Fund Structure.

7400 Other Transfers

Amounts expended or transferred for extraordinary situations such as transfers from reorganized or lapsed district to another district, loss on investments or joint ventures, such as material, prior-year assessments to self-insurance programs, JPA’s or consortiums.

7500 Student Financial Aid

Expenditures for student aid in the form of grants, fellowships, scholarships, tuition reduction, etc. Payments to students for services rendered, such as work-study, are expensed as classified salaries, chargeable to the activity benefited by the student’s work. Other payments to or for students, such as child care vouchers and bookstore vouchers, are to be recorded within Object 7600, Other Student Aid.

7600 Other Student Aid

Amounts paid to/for students for non-cash assistance, such as bus tickets, auto repairs related to commuting to college classes, child care vouchers, and bookstore vouchers. These amounts are often provided to participants in EOPS, DSPS or other categorical programs.

Expenditures for student aid in the form of grants, fellowships, scholarships, tuition reduction, etc., are to be recorded within Object 7500 in the **Student Financial Aid Trust Fund.**

7900 Reserve for Contingencies

This category is an appropriation classification only; no expenditures shall be recorded in this object.

This object includes amounts equal to that portion of the current fiscal year's appropriation that are not designated for any specific purpose, but are held in reserve to fund other appropriation items as may be needed during the fiscal year.

***CCR* §58307 states:**
"District Budget Limitations on Expenditure: The total amount budgeted as the proposed expenditure of the district for each major classification of district expenditures listed in the district budget forms prescribed by the board shall be the maximum amount which may be expended for that classification of expenditures for the school year. Transfers may be made from the reserve for contingencies to any expenditure classification or between expenditure classifications at any time by written resolution of the board of trustees of a district. A resolution providing for the transfer from the reserve for contingencies to any expenditure classification must be approved by a two thirds vote of the members of the governing board; a resolution providing the transfer between expenditure classifications must be approved by a majority of the members of the governing board."

EXPENDITURE ABATEMENTS

An abatement of expenditure is the return or cancellation of part or all of an expenditure previously recorded. Abatement of expenditure applies to both current expenses and capital outlay expenditures from all funds. Tuition receipts, fees, and rentals cannot be treated as abatement of expenditure. This definition must be observed in making all decisions as to whether a receipt is reported as income or as an abatement of expenditure.

The basic distinction is that an abatement of expenditure must always represent a receipt (or an accrual) that cancels a part or the whole of a determinable item of previous expenditure. If a receipt cannot be substantiated as a cancellation of a specific expenditure, it must be reported as revenue.

Applicable receipts must be accounted for by abating the object of expenditure account originally charged in the fiscal year received, irrespective of the fiscal year in which the original expenditure was recorded.

Whenever abatements of any particular type are numerous and, especially, if considerable amounts are involved, it is recommended that the credits be made to a "contra" account instead of directly to the expenditure account. The contra account should be identified as "Abatements of _______________" (insert the name of the expenditure account to which it relates). It should be maintained adjacent to the corresponding expenditure account in the expenditure (or appropriation) subsidiary ledger. The contra account will receive only credit entries for abatements. By this procedure, the undesirable features of a "mixed" account are avoided and gross expenditures, abatements, and net expenditures can be determined easily at any time.

The following shall be accounted for as abatement of expenditure:

- Receipts from sales of supplies and new materials at cost to other governmental units, including other community college districts;
- Refunds of overpayments from instructors and other employees or from vendors and other payees;
- Refunds for return of containers, including oil drums, wire spools, and the like;
- Refunds from a transportation company for unused portions of transportation fare books, tickets, and the like;
- Refunds of gasoline tax for non-highway use;
- Canceled warrants (excludes outdated and unclaimed warrants which remain a liability of the district);
- Abatements against salary for temporary disability payments offset against regular salary.
- Pass through payments for funds collected on behalf of another agency.

Cancellation of payables over-accrued in a prior period.

Chapter 5

Accounting for the Balance Sheet

(Assets, Liabilities, and Fund Balance/Equity)

Table of Contents

GENERAL

This chapter explains the classification of balance sheet accounts that community college districts are to use for reporting to the Chancellor's Office on the Annual Financial and Budget Report (CCSF 311). The balance sheet is the basic financial statement that discloses the assets, liabilities, and fund balance or equity of district funds as of a specified date.

The balance sheet of each fund is combined by fund is reported separately in the district's financial statements to provide an analysis of district's financial condition at a particular point in time. Assets and liabilities are generally listed in order of liquidity from most (cash) to least (inventories or prepaid expenses) liquid. Alternatively, accounts may be reported in the following subgroups: current assets and current liabilities for the governmental funds with the addition of non-current assets, capital assets and long-term liabilities for proprietary and fiduciary funds (See Chapter 2 for more detail).

All financial transactions can be stated in terms of their effect on the equation:

Assets - Liabilities = Fund Balance

Assets are resources owned or held by a fund that have a probable future economic benefit. For example, cash is used to purchase future goods and services while capital assets are used to perform specific functions that benefit future periods.

Liabilities are debts or other legal obligations arising from past financial transactions that must be liquidated, renewed, or refunded at some future date. Liabilities do not include encumbrances, which are budgetary commitments of funds that do not become legal obligations until delivery of the product or services.

Fund Balance is the difference between the assets and liabilities of a fund.

The 9000 series of accounts records the results of financial transactions and their effect on the balance sheet. The following is the basic balance sheet chart of accounts; each account with its subordinate classifications, is defined in the remainder of this chapter.

Assets

<u>Current Assets</u>
9100 Cash, Investments, and Receivables
9200 Inventories, Stores, and Prepaid Items

Non-Current Assets
9300 Fixed Assets
9400 Other Debits

Liabilities

Current Liabilities
9500 Current Liabilities and Deferred Revenues

Long-Term Liabilities
9600 Long-Term Obligations

Fund Balance

Non GASB 54 Terminology and accounts

9700 Fund Balance

- Reserved
- Designated
- Unrestricted

GASB 54 Terminology and accounts

9700 Fund Balance

- Nonspendable
- Restricted
- Committed
- Assigned
- Unassigned

Equity

9800 Equity

Normally, asset accounts are debit balances, and liability and fund balance accounts are credit balances. Contra accounts may be used to record offsetting entries to asset, liability or fund balance accounts. Such contra accounts have the opposite balance as their counterparts (e.g., contra-assets have credit balances and contra-liability and contra-fund balance accounts have debit balances). For example, Asset account-Accumulated Depreciation–Buildings is a contra-asset account used to record the cost associated with the expiration of the estimated service life of buildings.

The classifications presented here provide major and subordinate reporting categories. Account numbers have not been prescribed for subordinate classifications in order that districts have discretionary control over the assignment of account numbers.

ASSETS

9100 Cash, Investments, and Receivables

Cash Awaiting Deposit
Cash in Bank(s)
Cash in County Treasury
Cash with Fiscal Agent
Revolving Funds
Investments
Accounts Receivable
Allowance for Uncollectable Accounts
Due from Other Funds
Student Loans Receivable

These accounts record the results of financial transactions and their effect on available cash, investments of surplus cash, and moneys due.

Account 9100, Cash, Investments, and Receivables, is the controlling account that summarizes amounts recorded in the following subsidiary classifications:

Cash Awaiting Deposit
Cash receipts not yet deposited in the county treasury or bank accounts, including money held in clearing accounts awaiting deposit in the county treasury.

Cash in Bank(s)
Cash maintained in separate bank accounts or other commercial depositories. All money deposits should be in a financial institution whose accounts are federally insured. Amounts in excess of the federal insurance limit should be collateralized by agreement with the financial institution.

Cash in County Treasury
Cash maintained in the treasury of the county having jurisdiction over the district, including amounts processed through the county superintendent of schools, if applicable.

Cash with Fiscal Agent
Cash held in an institution (usually a commercial bank or trust company) designated by the district to act as a fiduciary and as the custodian of moneys related to debt financing (e.g., Tax Revenue Anticipation Notes and bond issues).

Revolving Funds
Cash maintained in a special bank account set aside for the purpose of making change or immediate payments of small amounts. Examples include imprest, petty cash, and change funds.

Invoices for these payments are accumulated and the account is reimbursed at least monthly from district funds to maintain the cash account at the predetermined amount.

Investments
Surplus moneys (not required for immediate use) invested in investment pools (e.g., Local Agency Investment Fund) or other investment instruments such as stocks, bonds, notes, Treasury bills, certificates, debentures, or other obligations issued by the federal government or by banks for cooperatives. Refer to *Government Code* Section 53600 et seq., for a definition of appropriate investment instruments and reporting requirements. Such investments are to be carried on the books at the current fair value as prescribed by GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools."

As an investment option, districts may choose to enter into interest rate swap agreements. The Governmental Accounting Standards Board has issued several Statements providing guidance as to the proper accounting for these agreements including Statements 53, *Accounting and financial Reporting for Derivative Investments* and Statement 64, *Derivative instruments: Application of Hedge Accounting Termination Provisions – and amendment of GASB Statement No. 53.* Districts should be fully aware of these statements and should consult with their external auditors concerning the proper accounting for these investments.

Accounts Receivable
The amount due from firms, corporations, governmental units, and individuals, including outstanding salary and travel advances to employees.

Amounts due from students (e.g., fees), with the exception of student loans, are included as Accounts Receivable.

Property tax revenues from assessments attributable to the fiscal year being reported that are not received by year-end are recorded as accounts receivable to the extent that they are both measurable and available. Such revenues are considered available if they are expected to be collected soon enough to be used to pay liabilities of the current period (generally 60 to 90 days). Contact the county auditor to determine the amount to record as a receivable. Property tax revenues received that are more or less than the accrual established in the prior year and are not the result of an error, as described in the

Governmental GAAP Guide, should be recorded as an increase or abatement to the current-year revenue and not an adjustment to the beginning fund balance.

Amounts due from other funds of the district are not recorded as Accounts Receivable, but are recorded as "Due From Other Funds."

Allowance for Uncollectable Accounts
The Allowance account is a Contra Asset account with a normal credit balance. The account is used to reduce the carrying balance of amounts due from others, including students, to a net realizable value. The allowance balance is the estimated total of uncollectible accounts included in the accounts receivable.

This allowance may be calculated using actual account balances as in all student receivables over two years may be considered uncollectible. Or may be calculated as a percentage of the aging of total accounts receivable balances; 10% of amounts over 60 days, 50% of amounts over 1 year, 100 % of amounts over 2 years. This calculation should be reviewed and updated at least annually or more frequently as necessary.

Due From Other Funds
The amount due from other funds of the district. At any point in time, the total amount reported across all funds must equal the amount due **to** other funds reported across all funds; however, if funds operate on different fiscal years, the due to and due from accounts between the funds may not be equal.

Student Loans Receivable
The amount due from outstanding loans to students under all loan programs. All other amounts due from students (e.g., fees) are recorded as accounts receivable.

9200 Inventories, Stores, and Prepaid Items

Inventories and Stores
Prepaid Items

These accounts record financial transactions and their effect on asset accounts for the cost of materials, supplies, and resale merchandise purchased and kept on hand for future consumption or sale. In addition, the accounts record prepayment for goods and services to be provided and consumed in a future period.

Account 9200, Inventories, Stores, and Prepaid Items, is the controlling account that summarizes amounts recorded in the following subsidiary classifications:

Inventories and Stores
The cost of all materials, supplies, and consumable items kept in storage for future consumption or sale. Also the valuation of books, food products and materials held for resale by the Bookstore and/or the Cafeteria.

Prepaid Items
The cost of services or goods paid for in advance but not yet received such as prepaid rent, prepaid interest and premiums on unexpired insurance.

The portion of a payment in advance that provides benefits beyond the current reporting period is recorded as Prepaid Items. In subsequent periods, prepaid amounts are reduced and recorded as expenditures as the benefits are received (e.g., as insurance coverage expires).

9300 Capital Assets

- Sites
- Site improvements
    - Accumulated Depreciation - Site Improvements
- Buildings
    - Accumulated Depreciation - Buildings
- Library Books
- Equipment
    - Accumulated Depreciation - Equipment
- Work in Progress

These accounts record the results of financial transactions and their effect on assets of a long-term character that are intended to continue to be held or used for more than one year (capital assets). These assets are of a permanent nature and have continuing value, such as land, buildings, machinery, furniture, and other equipment. The following accounts are found in the Proprietary Funds Group - Enterprise Funds (EF) and Internal Service Funds (ISF) as well as the Fiduciary fund types. Capital assets with contra depreciation allowance accounts are accounted in the same fund groups. These accounts are not utilized for the Governmental Fund Types for purposes for reporting on the CCSF 311, but capital assets should be tracked for inclusion on the entity wide financial statements (see Chapter 6 for the appropriate conversion entries). For the Governmental Funds Group, the financial acquisitions of capital assets are recognized as expenditures in the period of the financial transaction.

The detailed accounting of District Capital Assets will be for inclusion in the entity wide financial statements. Therefore, all districts should be incompliance with this requirement by documenting the historical cost of capital assets. Capital assets acquired through donations shall be recorded at fair market value to be incompliance with GASB Statements 34/35 reporting requirements as noted in the GAAFR.

Accumulated Depreciation is a Contra Asset account with a normal credit balance. Districts will utilize the straight line method of depreciation over the appropriate useful life of the asset in accordance with district capitalization policy.

Account 9300, Capital Assets, is the controlling account that summarizes amounts recorded in the following subsidiary classifications:

Sites
The original cost of sites or land owned by the district. The original cost of the site is not a depreciable asset and will remain in the accounting records at the original cost.

Site Improvements
The cost of all permanent improvements, other than buildings which add value to land. See the corresponding section of Accounting for Expenditures and Other Outgo, Object of Expenditure 6100 for clarification.

Accumulated Depreciation - Site Improvement
The accumulation of periodic credits made to record the expiration of the estimated service life of improvements other than building.

Buildings
The cost of permanent structures purchased or constructed by the district and improvements thereto.

Accumulated Depreciation - Buildings
The accumulation of periodic credits made to record the expiration of the estimated service life of buildings.

Library Books
The cost of books or media purchased for the college library. As the books themselves have an intrinsic value, and will be used over time, therefore no Accumulated Depreciation contra account is necessary.

Equipment
The cost of tangible or intangible property of a permanent nature, other than land or buildings and improvements thereon. Examples include machinery, tools, software, automobiles, furniture, and furnishings.

For purposes of capitalization and depreciation, equipment is defined as having a purchase price of $5,000 or more as defined by the district adopted capitalization policies and a useful life one year or more. Equipment purchased with funds from categorical programs, grants or contracts (e.g., CTEA) may be subject to specific additional or conflicting requirements. Consult the specific grant or contract literature for compliance requirements. (See the 6000 series in Chapter 4)

Accumulated Depreciation - Equipment
The accumulation of periodic credits made to record the expiration of the estimated service life of machinery and equipment.

Work in Progress or Construction in Progress
The cost of construction work undertaken but not yet completed. As the corresponding asset has not been completed or placed in service, the work in process is not subject to depreciation.

9400 Other Long-Term Assets

Funds that utilize the full accrual method of accounting may recognize other long-term assets such as Notes Receivable or Deferred Costs of Debt Issuance. The long-term portion of these assets is accounted for within object code 9400 and reduced over the life of the note as repayment is made, or amortized over the life of the related debt. This asset will also be recognized in accordance with GASB Statements 34/35 for year-end financial reporting. See Chapter 6 for additional discussion.

LIABILITIES

9500 Current Liabilities and Deferred Revenue

Accounts Payable
Accrued Salaries and Wages Payable
Compensated Absences Payable - Current
Due to Other Funds
Temporary Loans
Current Portion of Long-Term
Debt Deferred Revenue

These accounts are used to record the results of financial transactions and their effect on current liabilities, obligations for payments, and deferred revenue moneys advanced by other parties. In Governmental Funds, only the current portion of liabilities is recorded. The current portion is the amount that normally would be liquidated with expendable available financial resources (usually defined as less than two to twelve months).

The long-term portion of liabilities is recorded in separate accounts identified in the 9600 series of accounts. In Governmental Funds and similar Trust Funds, the long-term portion is recorded in the Fund 92 or other method as determined by the District for inclusion in the entity wide financial statements. Proprietary Funds and Nonexpendable Trust Funds use the full accrual basis of accounting, which results in recognition of the total liability in these funds.

If a district accumulates resources to retire, in whole or in part, its long-term liabilities (e.g., compensated absences), the resources may be recorded in a Debt Service Fund, or other appropriate fund for inclusion in the entity wide financial statements. Account 9500, Current Liabilities and Deferred Revenue, is the controlling account that summarizes amounts recorded in the following subsidiary classifications:

Accounts Payable
The amount due to individuals, firms, corporations, or governmental units for services or goods received prior to the end of the fiscal year. Amounts due to other funds of the district and temporary loans are not recorded as Accounts Payable.

Accrued Salaries and Wages Payable
The amount owed to employees for salaries, wages, and the related benefits.

Compensated Absences Payable - Current
The amount of vested leaves of absence (e.g., vacation and Workload Balancing Programs commonly referred to as “load banking”) expected to be paid in the current period. According to GASB Statement No. 16, “*Accounting for Compensated Absences*,”

and GASB Interpretation No. 6, no expenditure should be reported in the governmental funds in connection with compensated absences until they are paid.

Examples of compensated absences include accumulated hours attributable to vacation and workload balancing programs. In general, accumulated sick leave or eligibility for sabbatical leave are not recognized as a liability unless they satisfy both of the GASB Statement No. 16 criteria (see Chapter 6 for appropriate conversion entries for the entity wide financial statements.). Most sabbatical programs are contingent on performance of an approved plan and, therefore, do not meet the first criteria. In addition, despite the possibility that sick leave may be converted to years of service at retirement, it is not considered a vested benefit that requires a cash payment at termination or retirement.

To calculate the liability for compensated absences, the accumulated hours of earned leave is multiplied by the pay rates in effect at the balance sheet date. The result is then increased by the amount of salary-related costs paid by the employer (e.g., payroll taxes, worker's compensation insurance, pension contributions, and other benefits). In the case of a Workload Balancing Program, there may be an alternative rate, other than the employee's current pay rate, that is used for determining the liability.

To determine the current portion of compensated absences recorded in a governmental fund at year-end, a district may accrue the compensated absence actual usage up to 60 days beyond year end. However, in proprietary and fiduciary funds, both the current and long-term portions are recorded in the funds. The district may wish to consult with its contracted district auditor for assistance in determining the current portion of its liability for compensated absences.

To avoid reporting the current salary "banked" by all employees participating in a Workload Balancing Program as taxable income in the period in which it is earned, the district should adopt strict guidelines related to employees' access to amounts credited to their accounts. In addition, cash payments to employees should be disallowed, except in cases when the cash-out is driven by rules beyond the employee's control (e.g., termination, critical emergencies, or payout of nominal residual balances).

In cases where the individual has control over when income is received, the IRS applies Internal Revenue Regulation 1.451-2(a), which reads as follows:

> "Income although not actually reduced to a taxpayer's possession is constructively received by him in the taxable year during which it is credited to his account, set apart for him, or otherwise made available so that he may draw upon it at any time, or so that he could have drawn upon it during the taxable year if notice of intention to withdraw had been

> given. However, income is not constructively received if the taxpayer's control of its receipt is subject to substantial limitations or restrictions."

Under this regulation, income is taxable at the earliest date that the income could have been received. Therefore, if employees are allowed to "cash-out" all or a portion of their banked load, the IRS will determine that the income is taxable at the earliest time the election could be made. The earnings of all employees participating in the Workload Balancing Program would then be reported as income and subject to taxes when such excess services are rendered.

Due to Other Funds

Amounts due to other funds of the district. This amount must equal the amount due **from** other funds of the district. However, if funds operate on different fiscal years, the due to and due from accounts between the funds may not be equal.

Temporary Loans

The amount borrowed for short periods of time and usually evidenced by notes payable. These loans may be unsecured or secured by specific revenues to be collected, such as tax anticipation notes (TAN or TRAN). Tax Revenue Anticipation Notes are used by some districts to assure adequate cash flow during the fiscal year if local tax receipts or State funds are not timed to meet the district's operational needs. Bond Anticipation Notes (BAN) may be issued to meet construction related needs in anticipated of issuance of general obligation bonds.

Current Portion of Long-Term Debt

The amount of long-term debt (e.g., bonds, COP, etc.) to be extinguished within the next fiscal period. When establishing the amount for the Current Portion of Long-Term Debt, the related long-term portion shall be reduced by an equal amount. In governmental funds the long term portion is accounted for "off-books" and included in the conversion entries discussed in Chapter 6.

Deferred Revenue

Grants, contracts, fees, categorical allowances, or apportionment revenue received that is unearned as of the end of the fiscal year but that will be recorded as income subsequently, when earned. Examples of Deferred Revenues include enrollment fees received for Sumer and Fall terms prior to year end and categorical or other restricted revenues received but not spent or obligated by year-end that will be available the next year.

LIABILITIES

9600 Long-Term Liabilities

Bonds Payable
Revenue Bonds Payable
Certificates of Participation
Lease/Purchase or Capital Lease
Compensated Absences - Long-Term
Post-Employment Benefits - Long-Term
Other Long-Term Liabilities

These accounts record the results of financial transactions and their effect on long-term liabilities (debt with a maturity date of more than one year) and are applicable only to reporting on the GASB No. 35, full accrual entity wide financial statements and the Proprietary Funds Group–Enterprise Fund (EF) as noted below. The Governmental Funds Group spending measurement focus is centered on current liabilities.

Account 9600, Long-Term Liabilities, is the controlling account that summarizes amounts recorded in the following subsidiary classifications for the Proprietary Funds Group:

Bonds Payable
The face value of general obligation bonds outstanding, which are not due within one year.

Revenue Bonds Payable
The face value of revenue bonds outstanding, which are not due within one year.

Certificates of Participation (COP)
The net present value of the minimum capital lease payments, which are not due within one year.

Capital lease payments are recorded as expenditures in the fund which received the proceeds and acquired or constructed the assets.

Lease/Purchase or Capital Lease
The net present value of the minimum lease payments, which are not due within one year. When lease payments are made the total obligation is recorded in the fund that acquired the asset as discussed in Chapter 3.

Assets acquired through lease-purchase agreements are required to be capitalized and the related liability recorded - if they meet any one of the following criteria:

1. Ownership is transferred to the lessee by the end of the lease term.
2. There is a bargain purchase option.
3. The lease term is 75 percent or more of the estimated economic life of the leased property.
4. The value of the minimum lease payments is 90 percent or more of the fair value of the leased property at the inception of the lease.

Compensated Absences - Long-Term

The amount of vested leaves of absence (e.g., vacation and Workload Balancing Programs commonly referred to as "load banking") which are not expected to be paid currently. See Compensated Absences in Current Liabilities section for description.

Post-Employment Benefits

Costs associated with post-employment benefits are recognized as employees are rendering the service to earn or be eligible to receive the post-employment benefit. If the district uses the accrual basis of accounting for post-employment benefits, categorical programs may be charged for the cost of providing future benefit to employees who are working in categorically funded programs if the allocation is consistent across all categorical programs. An actuarial study is to be conducted every 2 to 3 years to determine the present value of the district's total future post-employment benefit cost for all eligible district employees and the related cost associated with an individual employee. The amount of the funded liability may be set aside in an Internal Service Fund or may be set aside in an irrevocable trust.

If the cash basis is used to account for post-employment benefits, the cost may **not** be charged to categorical programs. In addition, the unfunded liability will be accrued in the entity-wide financial statements in accordance with GASB Statement No. 45 as described in Chapter 6 for details.

Other Long-Term Liabilities

The noncurrent portion of other long-term liabilities such as Emergency Apportionment (*CCR §*58316), Energy Loans (*EC §*81663) and Instructional Improvement Loans (*CCR §*56684), as well as the noncurrent portions of liabilities for judgments and claims. Descriptive account titles should be used in accounting for such items.

FUND BALANCE

9700 Fund Balance (Governmental fund Types)
9800 Other Equity (Proprietary Fund Types)

Fund Balance or Equity has been defined as the residual balance remaining in the equations:

Assets – Liabilities = Fund Balance

In Proprietary Fund Types, the ending balance is Retained Earnings. In the Entity-Wide Financial statements, the ending balance is Net Assets.

In March 2009 the Governmental Accounting Standards Board issued Statement No. 54, *"Fund Balance Reporting and Governmental Fund Type Definitions."* The objectives of the new standards are to improve the usefulness and comparability of fund balance information, by reporting fund balance in more intuitive and meaningful components. The reason for the change in Fund Balance designations was that many believed the current fund balance classifications – Reserved, Unreserved- designated and Unreserved- undesignated were problematic in that standards defining the classifications were vague. Statement 54 establishes the following classifications for use in governmental fund types depicting the relative strength of the constraints that control how specific amounts remaining at year end within the funds may be spent. The statement addresses the classifications of certain governmental funds as well as fund balances and should be read and understood prior to adopting the fund balance classifications. The implementation should be discussed with the district's external audit firm.

Fund balance accounts are used to record the difference between assets and liabilities in Governmental and Expendable Trust Funds. The primary distinction between the five subcategories is the nature and source of the restrictions, if any, placed on how the available fund balance may be used.

In general, a fund's beginning fund balance should equal the ending fund balance of the prior period. According to the 1995 Governmental GAAP Guide, the only reason for making an adjustment to the beginning fund balance is the "Correction of a material error in the financial statements of a prior period." Errors may result from: mathematical mistakes, mistakes in the application of accounting principles, oversight or misuse of facts that existed at the time the financial statements were prepared, or a change from an accounting principle that is not generally accepted to one that is generally accepted. Materiality should be considered in determining whether an adjustment to beginning fund balance is necessary.

Revenues received or expenditures paid that are more or less than the accrual established in the prior year and are not the result of an error, as described above, should be recorded as an increase or abatement to the current-year revenue or expenditure and not an adjustment to the beginning fund balance.

GASB Statement No. 54 was issued to improve external financial reporting for governmental entities. As the community college system has adopted GASB Statements No. 34 and 35 with a Business-Type Activity reporting model, the fund balances noted in GASB Statement No. 54 are not reported externally. However, community college districts are required to implement and comply with GASB Statement No. 54 terminology and reporting guidance for the external reporting of the fund level financial statements.

Any District that chooses not to implement the provisions of GASB Statement No. 54 should continue to follow the Fund Balance structure and definition noted below:

9700 Fund Balance

9710 Fund Balance Reserved

Noncash Assets
Amounts Restricted by Law for Specific Purposes
Reserve for Encumbrances (Credit)
Encumbrances (Debit)
Reserve for Debt Service

9750 Fund Balance Designated

Designated for Commitments by Contract or Other Legal Obligation
Designated for Self Insurance Programs
Designated for Payments Resulting from Court Orders
Designated for Specific Future Purposes (Reserves for Economic Uncertainties)

9790 Fund Balance Unrestricted

9710 Fund Balance Reserved

Fund Balance Reserved includes that portion of the fund balance that is (1) legally restricted to a specific future use, or (2) not available for appropriation or expenditure.

The nature and source of restriction in the Fund Balance Reserved account is external (i.e., the restriction is due to factors beyond the control of the District).

Account 9710, Fund Balance Reserved, is the controlling account that summarizes amounts recorded in the following subsidiary classifications:

Noncash Assets

The amount of noncash assets that are not readily available to meet current operational needs.

Investments (e.g., stocks and bonds) that are not readily liquid or are otherwise unmarketable should be reported at the current fair value.

Noncash assets shall be identified by subcategory:

- Investments
- Revolving Cash Fund
- Student Loans Receivable
- Stores and Inventories
- Prepaid Items

Amounts Restricted by Law for Specific Purposes

The amount of available resources restricted as to use by law or source. Examples include unexpended revenues received, and not deferred, from student loan programs, redevelopment agency taxes and international student capital outlay fees.
Restricted amounts do not include amounts set aside (e.g., designated) by action of the governing board but include only amounts restricted by law, court action, or donor. Board-imposed designations are not restrictions in the sense applied here.

Reserve for Encumbrances (Credit)

This account is used to represent the amount of fund balance committed for payment of Encumbrances. It is used to recognize contingent liabilities in the form of purchase orders, contracts, and salary commitments and are chargeable to the appropriation, for which a part of that appropriation balance should be reserved.

Encumbrances (Debit)

An amount equal to that portion of the fund balance that has been committed for expenditures upon vendor performance, such as for the delivery of goods or services (includes purchase orders, contracts, salaries, and the like). Encumbrances are used in budgeting and do not represent GAAP expenditures or liabilities, but represent the estimated amount of expenditures ultimately to result if unperformed contracts in process are completed.

Reserve for Debt Service

The amount restricted by debt service agreements to be held as reserves for future retirement of debt.

9750 Fund Balance Designated

Fund Balance Designated is the portion of unreserved fund balance for which the governing board has indicated by its resolution plans for use in a future period. Such board designations reflect an "intent", which may be changed by subsequent resolution.

Account 9750, Fund Balance Designated, is the controlling account that summarizes amounts recorded in the following subsidiary classifications:

Designated for Commitments by Contract or Other Legal Obligation

The amount of contract or other legal obligation designated by board action to come from the unreserved fund balance.

Designated for Self-Insurance Programs

The amount designated by board action to come from the unreserved fund balance for the District's self-insurance program. Such amounts become available for other future District operations.

Designated for Payments Resulting from Court Orders

The amount required to be paid by court orders and designated by board action to come from the unreserved fund balance.

Designated for Specific Future Purposes

The amount designated by board resolution to come from the unreserved fund balance for the following:

- Capital Outlay
- General Reserve (See definition)
- Leases and Lease-Purchases

- Personal Services and/or Consulting Contracts
- Other

9790 Fund Balance Unrestricted

Account 9790, Fund Balance Unrestricted, is used for any portion of the fund balance not reserved or designated, as defined above, and available for future appropriations.

GASB STATEMENT NO. 54 FUND BALANCE STRUCTURE AND CLASSIFICATIONS

For Districts adopting the GASB Statement No. 54 classifications for internal reporting, the following categories and definitions are applied:

9700 Fund Balance

- ***Nonspendable:*** Fund balance includes amounts that are not in a spendable form (inventory, for example) or are required to be maintained intact (the principal of an endowment fund, for example). Examples also include non liquid investments and student loan receivables that cannot be used to satisfy current needs.
- ***Restricted:*** Fund balance includes amounts that can be spent only for the specific purposes stipulated by external resource providers (for example, grant providers), constitutionally, or through enabling legislation (that is, legislation that creates a new revenue source and restricts its use). Effectively, restrictions may be changed or lifted only with the consent of resource providers. Also included within the Restricted Category are amounts required for Debt Service payments.
- ***Committed:*** Fund balance includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. Commitments may be changed or lifted only by the government taking the same formal action that imposed the constraint originally. Balances which may be subject to the Committed criteria may include amounts set aside for future OPEB payments.
- ***Assigned:*** Fund balance comprises amounts *intended* to be used by the government for specific purposes. Intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority. In governmental funds other than the general fund, assigned fund balance represents the amount that is not restricted or committed. This indicates that resources in other governmental funds are, at a minimum, intended to be used for the purpose of that fund.
- ***Unassigned:*** Fund balance is the residual classification for the general fund and includes all amounts not contained in the other classifications. Unassigned amounts are technically available for any purpose. If another governmental fund has a fund balance deficit, then it will be reported as a negative amount in the unassigned classification in that fund. Positive unassigned amounts will be reported only in the general fund. This classification includes amounts identified by the governing board as reserved for economic uncertainties.

9800 Other Equity – Proprietary Fund Types and Non Expendable Trust Funds

9810 Contributed Capital
9850 Retained Earnings
9890 Investment in Capital Assets

Other fund balance accounts are used to record the difference between assets and liabilities of Proprietary Funds and Nonexpendable Trust Funds.

9810 Contributed Capital

Account 9810, Contributed Capital, is used to record the permanent contribution of monetary or nonmonetary assets to a proprietary fund. Examples of transactions recorded in the Contributed Capital account include permanent transfers of cash or capital assets or receipt of a grant that is externally restricted to capital acquisition or construction.

9850 Retained Earnings

Account 9850, Retained Earnings, is used to record the difference between assets and the sum of liabilities and contributed capital in proprietary funds and nonexpendable trust funds. This account represents the accumulated earnings in these funds.

9890 Investment in Capital Assets

Account 9890, Investment in Capital Asset, reflects that portion of a Proprietary fund's ending balance that is comprised of the net capitalized assets.

Chapter 6

Governmental Accounting and Financial Reporting

Table of Contents

GENERAL DESCRIPTION

This chapter details the financial *reporting* structure to be used by all community college districts in their independent, annual audits. The California Community College Chancellor's Office, through its Fiscal Standards and Accountability Committee, requires that all community college districts use the reporting standards as outlined in Governmental Accounting Standards Board (GASB) Statements No. 34, *"Basic Financial Statement and Management's Discussion and Analysis for State and Local Governments"* and No. 35, *"Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities".* Under these statements, the Chancellor's Office through the Fiscal Standards Committee, has adopted the Business Type Activity (BTA) reporting model.

The primary objective of GASB Statements No. 34 and 35, is to enhance the understandability and usefulness of external financial information issued by public colleges and universities through the establishment of new accounting and financial reporting standards. The overall financial reporting emphasis shifts away from the funds of a district to the district as a whole. The Statement recognizes the general purpose of external financial reports is to the citizens, legislative and oversight bodies, and investors and creditors; the groups recognized by GASB Concepts Statement No. 1, Objectives of Financial Reporting, as the primary intended users of governmental financial reports.

The community college system adopted the use of GASB Statement No. 35 (BTA) which became effective in three phases, based on total annual revenues:

$100 million or more – Phase 1 – became effective in 2001-2002
$10 million or more – Phase 2 – became effective in 2002-2003
Less than $10 million – Phase 3 – became effective in 2003-2004

Generally, GASB Statement No. 35 amended GASB Statement No. 34 to permit public colleges and universities, in separately issued financial statements, to use the guidance for special-purpose governments engaged only in business-type activities, engaged only in governmental activities, or engaged in both governmental and business-type activities in their separately issued reports. Under this guidance, a public institution is required to include Management's Discussion and Analysis (MD&A); basic financial statements; notes to the financial statements; and required supplementary information other than MD&A. This reporting model does not require that fund financial statements be included in the annual audit report; however, a community college district may choose to include fund financial statements as other supplementary information.

In accordance with the reporting model outlined above, the financial data presented in the annual audit report must provide an entity-wide perspective displaying a consolidated total of all district funds. In addition, the financial data reported must be presented under the full accrual basis of accounting which requires that revenues are recognized when earned and expenses are recorded when an obligation has been incurred. The Balance Sheet reflects the long term assets, such as capital assets, and long term liabilities such as debt with the residual balance classified as Net Assets.

Following is a brief description of the each of the required components of the reporting model prescribed under GASB Statement No. 35, and in accordance with the recommended BTA model. Please refer to the Contracted District Audit Manual (CDAM) for a sample of an audit report and further guidance.

MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)

The MD&A precedes the basic financial statements and should introduce the financial statements and activities of the district. Although the MD&A is required supplementary information, it must be presented *before* the basic financial statements. The MD&A should provide an objective and easily readable analysis of the government’s financial activities based on currently known facts, decisions, or conditions. The MD&A should include a discussion of both the positive and negative trends for the district and is to be complete and factual. The MD&A should include:

- Comparisons of the current year to each prior year included in the basic financial statements. If two-year comparative financial statements are presented, the MD&A analysis will cover a three year period of time.

- Analysis of the district’s overall financial position and results of operations to assist users in assessing whether that financial position has improved or deteriorated as a result of the year’s activities.

- Analysis of significant changes that occur in funds.

- Description of capital assets and long-term debt activity during the year.

- Description of currently known facts, decisions, or conditions that are expected to have a significant effect on financial position or results of operations.

- Future known economic factors that may impact the district’s operations.

- A method for contacting the district to receive additional information if necessary.

BASIC FINANCIAL STATEMENTS

Statement of Net Assets

All governmental and proprietary funds as well as the Student Financial Aid fund of the district will be consolidated in a single column Statement of Net Assets. Fiduciary funds are reported separately as the assets and related liabilities are held in trust for other groups or organizations.

Assets and liabilities are presented in order of their relative liquidity with Cash and assets expected to be used in operation within the year classified as current assets. Assets not expected to be sold or used in current operations are classified as noncurrent assets. The primary category of noncurrent assets are the capital assets of the district: land, construction in process, improvements, buildings and equipment – net of accumulated depreciation.

Liabilities of the district are similarly classified as current or long term depending upon the anticipated liquidation. Those liabilities to be liquidated through the use of current assets – including cash- are current liabilities. Those amounts that will mature or come due in future years are classified as long term liabilities. The amount of a long term liability that will be due within one year is recorded within the current liabilities classification.

Amounts due to/from the various funds of the district are consolidated and eliminated in the conversion process.

Net Assets is the remaining equity of the district on an entity-wide basis. Net assets are classified in three categories:

Invested in capital assets, net of related debt
Restricted nets assets – expendable and nonexpendable
Unrestricted net assets

Statement of Revenues, Expenses and Changes in Net Assets

District revenues are consolidated and classified as either operating or nonoperating, depending upon the actual source of the revenue on the ***Statement of Revenues, Expenses and Changes in Net Assets***.

Under the accrual basis of accounting, revenue is recorded when earned regardless of the corresponding cash flow. Whether a transaction results from restricted or unrestricted revenue is not a factor in deciding when the revenue is recorded. The GASB has defined revenue transactions as either an exchange transaction or a nonexchange transaction as detailed in GASB Statement No. 33; *Accounting and Financial Reporting for Nonexchange Transactions*:

> **Exchange Transactions** – there is an identifiable exchange of value between the district and another party. Examples of exchange transactions include Student Tuition and Fees as students will receive credit for courses paid for, and Bookstore and Cafeteria Sales. Student tuition and fees are first to be reported gross of any scholarships or allowances with the corresponding discount shown on the face of the financial statements. Exchange transactions are, by their nature, operating revenues
>
> **Nonexchange transactions** – revenues received by the district where there is no clear value between the district and another party. Examples of nonexchange transactions include State Apportionment, Property Tax revenues, Federal and State grants and Interest revenue. Nonexchange transactions are nonoperating revenues.

Expenses are classified as to operating and nonoperating. Those expenses which are required in the normal course of business, and serve the stated purpose of the district, are reported as operating expenses. This will include salaries and benefits, supplies and operating expenses, and depreciation expense. Additionally, as student financial aid is, in many cases, necessary for the students to attend the college, this is also classified as an operating expense.

Nonoperating expenses are those expenses not required in the normal course of business: e.g. interest expense, or a loss on disposal of an asset.

<u>Statement of Cash Flows</u>

GASB Statement No. 35 requires the preparation of a Statement of Cash Flows based on the provisions of GASB Statement No. 9: "*Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities that use Proprietary Accounting"*. (BTA model) The Direct method of presenting the cash flows from operations must be used and will include a reconciliation of operating cash flows to operating income.

The primary purpose of a Statement of Cash Flows is to provide relevant information about the cash receipts and cash payments of an entity during a period. A Statement of Cash Flows should explain the change in cash and cash equivalents regardless of whether there are restrictions on their use.

For purposes of Statement No. 9, **cash** includes currency, demand deposits with banks or other financial institutions, and deposits in other kinds of accounts or cash management pools that have the characteristic of demand deposit accounts. **Cash equivalents** are short-term, highly liquid investments, generally with maturities of three months or less. Examples of cash equivalents are treasury bills, commercial paper, certificates of deposit, money market funds, and cash management pools.

Cash receipts and payments are reported at **gross**. For example, outlays for acquisitions of capital assets should be reported separately from the proceeds from sales of capital assets, and proceeds of borrowing should be reported separately from repayments.

The Statement of Cash Flows has four categories: (1) *Cash Flows from Operating Activities*, (2) *Cash Flows from Noncapital Financing Activities*, (3) *Cash Flows from Capital and Related Financing Activities*, and (4) *Cash Flows from Investing Activities*. In addition, districts must report information about all investing, capital, and financing activities that affect assets and liabilities but do not result in cash receipts or cash payments in the period. This information will be presented in a separate schedule, beneath the Statement of Cash Flows, with the title, *Noncash Transactions.*

Finally, a Reconciliation of Net Operating Income (Loss) to the Net Cash Flows from Operating Activities must be presented.

<u>Notes to the Financial Statements</u>

The Notes to the Financial Statements provide expanded definitions of district accounting policies, as well as clarity and detail for specific components of the financial statements. The notes to the financial statements are considered to be an integral part of the statements for the district and should always be read in conjunctions with the statements themselves. The notes provide disclosure of material items which, if not disclosed, could cause the financial statements to be misleading. The required notes are prescribed in GASB Statement No. 38, *"Certain Financial Statement Note Disclosures"* as well as the sample notes included within the Chancellor's Office Contracted District Audit Manual (CDAM). Each district has responsibility to read the notes to the financial statements and determine whether further explanation and/or descriptions about significant events should be included. It is likely that each district within the community college system will have different notes depending upon their particular circumstances. The most common notes are included within the CDAM and are to be reviewed with the district auditors for completeness.

<u>Required Supplementary Information</u>

Other Post Employment Benefits (OPEB)

Accounting principles have long held that the cost of post employment benefits should be accrued over covered employees' working lifetime. For this reason, the Governmental Accounting Standards Board (GASB) issued in 2004 Accounting Standards No. 43 and No. 45 for retiree health benefits. These standards apply to all public employers that pay any part of the cost of retiree health benefits for current or future retirees. An entity is required to recognize the total compensation for employee services, including OPEB costs.

To actuarially accrue retiree health benefits requires determining the amount to expense each year so that the funds accumulated at retirement are, on average, sufficient (with interest) to cover all retiree health expenditures without the need for additional expenses. Districts are required to have an actuarial report completed every 2 years (or 3 years if there are fewer than 200 plan members) to determine these costs.

Conceptually, there are two components of actuarial cost - a "normal cost" and an amortized amount of the "unfunded actuarial accrued liability." The normal cost can be thought of as the value of the benefit earned each year if benefits are accrued during the working lifetime of employees. An actuary determines what amount needs to be expensed each year from hire until retirement to fully accrue the expected cost of retiree health benefits. Under GASB Statements No. 43 and 45, the normal cost can be expressed either as a level dollar amount or as a level percentage of payrolls and is expensed in the 3400 object codes for health and welfare benefits.

If an employer had expensed the normal cost every year for all past and current employees and retirees, the funds would have accumulated to a sizeable amount. The amount that should be accumulated is called the actuarial accrued liability (AAL). The excess of the AAL over funds earmarked for retiree health benefits is called the unfunded actuarial accrued liability (UAAL). Under GASB Statements No. 43 and 45, in order for assets to count toward offsetting the AAL, the assets have to be held in an irrevocable trust that is safe from creditors and can only be used to provide OPEB benefits to eligible participants.

The district's annual OPEB cost is calculated based on the ARC of the employer. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any UAAL over a period not to exceed thirty years. If the District is fully funding its ARC in an irrevocable trust, there are no adjusting entries required for financial reporting purposes. If the district is not fully funding its ARC, the unfunded amount is recorded as a benefit expense with the offset to an OPEB liability.

A schedule of funding progress is included in the Required Supplementary Information section of the financial statements. The schedule is prepared to show information from the three most recent actuarial valuations and is intended to show trends about the funding progress of the District's actuarially determined liability for postemployment benefits other than pensions. For additional information regarding accounting for OPEB, refer to accounting advisory GASB Statement No. 45 – accounting for other post-employment benefits dated June 14, 2010.

Functional Expenses

For external reporting purposes, public colleges and universities may report expenses by function or by natural classification. As directed by the Fiscal Standards and Accountability Committee, the categories to be used for the expenses by function in the footnotes include the following expenditures by activity codes:

- Instruction (0100-5900)
- Academic Support (6000-6100)
- Student Services (6200-6400)
- Operation and Maintenance of Plant (6500)
- Institutional Support (6600-6700)
- Community Service and Economic Development (6800)
- Auxiliary Services, Auxiliary Operations (6900-7000)
- Student Aid (portion of 7300)
- Physical Property (non-capitalized), Interest and Other Outgo (7100-balance of 7300)
- Depreciation

There are no specific directives from GASB Statement No. 35 as to where this information should be reported, other than reference made to the effect that public colleges and universities may report expenses by function or by natural classification. However, if natural classification is presented on the Statement of Functional Expenses, it must also be reported. The illustrative report in the CDAM shows this information reported as a footnote. Other accepted presentations include this schedule in the MD&A or in the Supplementary Information. From the Contracted District Audit Manual, the following is a sample Functional Expense Disclosure:

	Salaries	Employee Benefits	Supplies, Materials, Utilities Other Expenses and Services	Student Financial Aid	Depreciation	Total
Instructional	$ 29,274,706	$ 5,026,096	$ 2,798,280	$	$	$ 37,099,082
Academic Support	3,976,191	791,782	2,513,270			7,281,243
Student Services	6,560,715	1,170,461	1,606,419			9,337,595
Operation & Maintenance of Plant	2,783,334	722,932	4,508,339	-		
Institutional Support	4,721,727	3,339,256	3,057,380			11,118,363
Community Services and Economic Development	746,536	80,326	466,380			1,293,242
Ancillary Services and Auxiliary Operations	1,494,072	321,303	7,254,799			9,070,174
Student Aid				-		
Other Outgo	149,107	22,950	3,705,129			3,877,186
Depreciation Expense					7,800,000	7,800,000
Total	$ 49,706,388	$ 11,475,106	$ 25,909,996	$ -	$ 7,800,000	$ 86,876,885

Functional Expense disclosures, regardless of where they are reported in the financial statements, should consist of operating expenses for all consolidated funds only. The total should reconcile to Total Operating Expenses on the Statement of Revenues, Expenses, and Changes in Net Assets.

In addition to the supplementary information included in the audited financial statements such as the Schedule of Expenditures of Federal Awards and the workload Measures for State General Apportionment.

Management's Discussions and Analysis is part of the Required Supplementary Information as is the **Schedule of Other Postemployment Benefits (OPEB) Funding Progress.** This schedule follows the Notes to the Financial Statements, and provides the reader with information based on the actuarial study obtained by the district for post employment benefits. The footnote disclosure will provide the policies of the district and the covered employees as well as current year expense and funding. The supplementary information will provide information related to the actuarial value of assets (if the district is funding OPEB) and the actuarial accrued liability to show the current unfunded liability. The primary components of the information presented are included in the district's actuary report for the OPEB. This actuary report is to be obtained from an outside actuary and is to be completed every three years.

<u>Supplementary Information</u>

Supplementary information contained within the annual financial statements may be required by funding authorities such as the Single Audit Clearinghouse requirement for the Schedule of Expenditures of Federal Awards, or by the State Chancellor's Office as described in the CDAM. As the financial statement presentation under GASB Statements No. 34 and 35 is on a full accrual basis and provides for consolidated reporting of district funds and activities, the **Reconciliation of Governmental Funds to the Statement of Net Assets** has become critical in bringing the fund level financial statement balances reported on the modified accrual basis of accounting to the full accrual presentation on the statement of net assets. There are two options in providing this information:

A sample reconciliation using Option #1.

General Fund	$ 12,002,869	
Bond Interest and Redemption Fund Balance		2,122,639
Revenue Bond Construction Fund Balance		7,754,182
Capital Outlay Projects Fund Balance		564,748
Student Financial Aid and Trust Fund Balance		121,523
All Other Funds	2,396,015	
Total Audited Fund Balances as reported on the Annual Financial and Budget Report (CCFS-311)		24,961,976
Auxiliary Fund Balances (not reported on CCFS-311)		1,231,321
Net audit adjustments, see page ___		725,465
Total Ending Fund balances		$ 26,918,762
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used for governmental activities are not financial resources and therefore are not reported as assets in governmental funds. However, capital assets, net of accumulated depreciation are added to total net assets.		184,256,927
Compensated absences and load banking are not due and payable in the current period, and therefore are not reported in the governmental funds.		(1,816,211)
Short-term and long-term liabilities, including bonds, certificates of participation, financing agreement and capital leases are not due and payable in the current period, and therefore are not reported as liabilities in the governmental funds. Short-term and long-term liabilities are added to the statement of net assets which reduces the total net assets reported.		(6,281,709)
Issuance costs related to bonds incurred through June 30, 20XX are capitalized and added to total net assets.		1,123,177
Interest expense related to bonds incurred through June 30, 20XX are required to be accrued under full accrual basis of accounting. This liability is added to the statement of net assets, which reduces the total net assets reported.		(1,077,810)
Employer contributions for other postemployment retirement benefits which are less than the actuarically determined required contribution are recognized as a liability		(120,052)
Reduction for Post Retirement Employee Benefits (OPEB) for amounts held in an irrevocable trust and reported as fiduciary activity.		(958,558)
Total Net Assets	$ 202,044,526	

A sample reconciliation using Option #2.

XXXX COMMUNITY COLLEGE DISTRICT

ANNUAL FINANCIAL AND BUDGET REPORT (CCFS-311)
AND RECONCILIATION WITH STATEMENT OF NET ASSETS AND
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 20XX

Description	General Fund	Bond Interest and Redemption Fund	Revenue Bond Construction Fund	Capital Projects Funds	Student Financial Aid Fund	All Other Funds	Total
REVENUES:							
Federal Revenues	$ 1,057,712	$	$	$	$ 1,016,766	$	$ 2,074,478
State Revenues	11,677,566	15,509		538,976	188,000		12,420,051
Local Revenues	5,264,085	1,994,755	475,354	807,975	45,492	3,566,475	12,154,136
TOTAL REVENUES	17,999,363	2,010,264	475,354	1,346,951	1,250,258	3,566,475	26,648,665
EXPENDITURES							
Academic Salaries	6,828,973					6,828,973	
Classified Salaries	4,335,218					148,068	4,483,286
Employee Benefits	3,383,267					51,124	3,434,391
Supplies and Materials	235,989		1,654,646	3,646		300	1,894,581
Other Operating Expenses and Services	2,410,025		3,313,456	233,249	139,574	3,251,023	9,347,327
Capital Outlay	219,780		5,678,977	3,531,976		43,193	9,473,926
TOTAL EXPENDITURES	17,413,252	-	10,647,079	3,768,871	139,574	3,493,708	235,209,585
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	586,111	2,010,264	(10,171,725)	(2,421,920)	1,110,684	72,767	(8,813,819)
NET OTHER FINANCING SOURCES (USES)	(695,368)	(1,818,937)	(1,818,937)	446,596	(1,175,647)		(5,062,293)
NET INCREASE (DECREASE) IN FUND BALANCE	(109,257)	191,327	(11,990,662)	(1,975,324)	(64,963)	72,767	(13,876,112)
BEGINNING FUND BALANCE:	12,112,126	1,931,312	19,744,844	2,540,072	186,486	2,323,248	38,838,088
ENDING FUND BALANCE	$ 12,002,869	$ 2,122,639	$ 7,754,182	$ 564,748	$ 121,523	$ 2,396,015	$ 24,961,976

RECONCILIATION TO INCREASE IN NET ASSETS	
Net Decrease in Fund Balance	$ (13,876,112)
Capitalized assets	11,345,646
Depreciation expense	(7,800,000)
Increase in compensated balances	(689,574)
Principal payments of notes payable	5,993,682
Principal payments of bonds	7,374,268
Bond accrued interest	1,767,454
Bond accreted interest	(1,733,902)
INCREASE IN NET ASSETS	$ 2,381,462

RECONCILIATION TO NET ASSETS	
Auxiliary Ending Fund Balances (not reported on CCFS-311)	1,231,321
Net audit adjustments, see page __	725,465
Capital assets, net	184,256,927
Compensated absences balances, long term	(1,816,211)
Bond payable and accrued interest	(7,284,074)
Bond issuance cost	1,123,177
Notes payable	(75,445)
OPEB - Employer contributions	(120,052)
OPEB - Amounts held in irrevoable trust	(958,558)
NET ASSETS	$ 202,044,526

CONVERSION / CONSOLIDATION ENTRIES

The following information is provided to assist in the various adjustments that are necessary to convert the fund financial statements required by the modified accrual basis of accounting, to the entity-wide full accrual basis of accounting is required by GASB Statement No. 35 using the BTA model. These conversion entries are solely for financial statement reporting purposes and will not be posted in the fund-based financial accounting records. While these entries are made at year-end for the annual audited financial statement presentation, each district must be familiar with the entries, and be prepared to provide the necessary entries and/or supporting documentation.

This section will provide examples of the major and most widely recognized conversion entries. Other possible entries may also be required by an individual district and will need to be reviewed in accordance with GASB Statement No. 35 guidance.

Only the governmental fund types are currently using the modified accrual basis of accounting. Proprietary fund types (internal service funds and enterprise funds) account for transactions using the full accrual basis of accounting. The fiduciary fund types include the trust and agency funds which are accounted for using the full accrual basis of accounting.

In addition to the described conversion entries, consolidating journal entries may also be needed to eliminate inter-fund transactions between both the governmental fund types and the proprietary fund types.

The conversion process is a two part process which requires the prior year entries be posted to the beginning net asset balance, and then the effect of current year activity recognized. The entries that follow will start with the typical consolidating journal entries and then move to the conversion entries required for full accrual basis financial statements. The journal entries that are included within this section are sample entries with amounts included for illustration purposes only. Other entries may be necessary for a specific district and not all the illustrated entries may be required.

TYPICAL CONSOLIDATING ENTRIES

<u>Due To's and Due From's</u>

All interfund payables and receivables will need to be reconciled to first ensure the balances between funds are in agreement. A consolidating journal entry to eliminate the entries on an entity-wide basis is needed.

Debit	Accounts Payable (Due To Other Funds)	$200,000	
	Credit Accounts Receivable (Due From Other Funds)		$200,000

To eliminate Interfund Due To's and Due From's

<u>Interfund Transfers</u>

All interfund transfers will need to be reconciled to ensure the balances between funds are in agreement. A consolidating journal entry to eliminate the effect of the transfers on the entity-wide financial statements is needed:

Debit	Interfund Transfers In	$150,000	
	Credit Interfund Transfers Out		$150,000

To eliminate Interfund Transfers

<u>Interfund Revenue and Expense</u>

Examples may include the payment of insurance premiums to the self insurance fund by the general fund, post employment benefit premiums accounted for in a proprietary fund or charges for food services between the cafeteria fund and other funds.

Debit	In-District Premium Revenue	$625,000	
	Sales Revenue	45,000	
	Credit Employee Benefits Expense		$300,000
	Insurance Premium Expense		325,000
	Food Supplies Expense		45,000

To eliminate Interfund Revenue and Expense

Other interfund activities may be accounted for within the fund financial statements which will need to be analyzed to determine whether revenues and expenses are overstated on the entity-wide financial statements. If other interfund activities are identified, a consolidating entry to eliminate those activities will be needed.

TYPICAL CONVERSION ENTRIES

In order to bring prior year activity to the beginning net asset balance of the consolidated entity-wide financial statements, the following entries should be made:

ASSET ACCOUNTS

The typical asset accounts which require analysis include Non-Current Assets such as Notes Receivable, Capital Assets, and other assets resulting from debt issuances such as Deferred Costs on Issuance.

Accounts/Notes Receivable

Accounts and notes receivable within the fund financial statements are recorded as the payments are received as current year income. The full accrual, entity-wide financial statements will record the transaction in the initial year. Subsequent payments received will reduce the asset balance.

Debit	Notes Receivable		$ 1,500,000	
	Non-Current Assets		750,000	
	Credit	Beginning Net Asset Balance		$ 2,250,000

To record Beginning Balances of Notes and Non-Current Assets

The collectability of the Notes and Non-Current Assets will need to be evaluated and an allowance for doubtful accounts established if needed.

Debit	Beginning Net Asset Balance		$ 100,000	
	Credit	Allowance for Doubtful Accounts		$ 100,000

To record Beginning Balance of Allowance for Doubtful Accounts

Capital Assets

Assets purchased and recorded in the prior year will be brought into the financial statements with one conversion entry noting each class of asset and the related accumulated depreciation. Current year activity recorded within the fund modified accrual basis financial statements will be described within the following Current Year Activity section.

Debit	Land	$ 28,000,000
	Construction in Progress	52,000,000
	Buildings	450,000,000

Equipment		28,000,000	
Credit	Accumulated Depreciation - Buildings		$ 85,000,000
	Accumulated Depreciation - Equipment		21,000,000
	Beginning Net Asset Balance		452,000,000

To record Beginning Balances of Capital Assets

All assets belong to the district as a whole. Capital assets recorded in the Proprietary Fund types and Fiduciary Fund types should be excluded from the above conversion entry to prevent double counting.

LIABILITY ACCOUNTS

The typical liability accounts which require analysis include the Non-Current Debt and Notes Payable. A review should be performed to understand and account for all obligations beyond one year that are not included within the modified accrual basis of accounting for the Governmental Fund types. Once the beginning balances are established, the current year activity which is reported as Other Financing Sources/Uses and Issuance Costs will be discussed in the following Current Year Activity section.

Debit	Beginning Net Asset Balance	$302,025,000	
Credit	General Obligation Bonds Payable		$280,000,000
	Other Post Employment Benefits		8,500,000
	Notes Payable		10,000,000
	Compensated Absences Payable		3,250,000
	Capital Leases Payable		125,000
	Other Non-Current Obligations		150,000

To record Beginning Balances of Non-Current Obligations

Other Non-Current Obligations may include Supplemental Early Retirement Payments (SERP), Certificates of Participation (COPs), and other obligations entered into having long term effects on the financial statements.

When bond debt is issued by the district, it may be issued at a premium or a discount and include costs of issuance. These transactions are accounted for in the fund based accounts at the time of the initial transaction. However, on a full accrual basis the total premium, discount, and costs will be reflected on the balance sheet as an asset or liability, and amortized over the life of the obligation as discussed in the following Current Year Activity section.

Debit	Deferred Costs on Issuance	$2,600,000	
Credit	Bond Premium		$ 500,000
	Beginning Net Asset Balance		2,100,000

To record Beginning Balance of Unamortized Deferred Costs on Issuance and Bond Premium

CURRENT YEAR ACTIVITY

Current Year Activity will require additional conversion entries for financial statement presentation. The following are the most likely required adjustments:

Student Tuition and Fees and Corresponding Fee Waivers

Student tuition and fees are generally recorded net of fee waivers. An entry is required to properly disclose the gross amount of fees and the full financial support to students.

Debit	Scholarship discount and allowance		$ 3,200,000	
	Credit	Student tuition and fees		$ 3,200,000

To record effect of fee waivers on student tuition and fee revenue

Capital Assets

Within each governmental fund type, review the amounts charged for any activity that meets your asset capitalization policy and prepare a detail listing.

The following are typical conversion entry adjustments:

Debit	Construction in Progress		$26,000,000	
	Credit	Construction expense		$26,000,000

To record current year construction project activity NOTE: You may also need to analyze the 4000 and 5000 object codes for supplies and services related to capitalizable projects

Debit	Buildings		$46,000,000	
	Credit	Construction in Progress		$46,000,000

To record completed projects placed in service during the year

Debit	Equipment		$ 430,000	
	Credit	Equipment expense		$ 430,000

To record current year equipment purchases meeting the district's capitalization threshold

Debit	Depreciation Expense		$ 8,500,000	
	Credit	Accumulated Depreciation - Buildings		$ 7,850,000
		Accumulated Depreciation - Equipment		650,000

To record current year depreciation expense

During the year equipment may be scrapped, sold, or otherwise disposed of and expenses previously capitalized in Construction in Progress accounts may be determined to no longer be valid projects of the District. These expenses may include planning costs or architectural services for projects that will not be started by the district. The following entry may be necessary to reconcile the disposals and project deletions:

Debit	Accumulated Depreciation - Equipment		$ 290,000	
	Loss on Disposal of Equipment		20,000	
	Buildings, Maintenance and Repairs		975,000	
	Credit	Equipment		$ 310,000
		Construction in Progress		$ 975,000

To record sale of equipment and results of analysis of Construction in progress accounts

The District may also receive a donation of land, buildings, or equipment that meets the capitalization threshold established by asset capitalization policy. This donated asset should be recorded within the capital asset accounts and entity-wide financial statements at the donated value (supported by an appraisal if available). In the following example, the District received a donation of land with a value of $275,000 with a building valued at $1,000,000 which will be used in the administrative operations of the District.

Debit	Land	$ 275,000	
	Buildings	1,000,000	
	Credit Donation Revenue (Other Non Operating Revenue)		$ 1,275,000

To record donation of property received during the year

If the donated property (land & building) will not be used within the operations of the District, but instead the intent is to resell the property, the entry would be:

Debit	Capital Asset Held for Resale	$ 1,275,000	
	Credit Donation Revenue (Other Non Operating Revenue)		$ 1,275,000

To record donation of property held for sale

At the time of the re-sale in subsequent years, the entry will be following - assuming a sales price of $1,300,000:

Debit	Cash		$ 1,300,000	
	Credit	Capital Asset Held for Resale		$ 1,275,000
		Gain on Sale of Asset		25,000

To record sale of previously donated asset

Note Receivable

Payments received on a note receivable are recorded as current year income within the modified accrual basis governmental funds; however, on a full accrual basis the asset has been recorded and revenue recognized within the year the contract was signed. While interest income remains a current year activity, the principal received is a reduction of the recorded asset and not new revenue.

Debit	Local Revenue		$ 200,000	
	Credit	Note Receivable		$ 200,000

To record receipt of current year note payment

Long Term Obligations

The effect of long term obligations may be recorded throughout the various governmental fund types. On a consolidated basis only one conversion entry needs to be recorded to properly affect the entity-wide full accrual financial statements. The current year activity may increase or decrease the long-term obligations. The following are the most common and may be posted individually or in the aggregate:

Compensated Absences

The net increase or decrease in the district's obligation to employees for compensated absence will be recorded. Each district will need to analyze their compensated absences as to whether or not the benefit vests with the employee. Typical vested benefits include vacation, compensatory time, and load banking.

Debit	Salary and Benefit Expense		$ 625,000	
	Credit	Compensated Absences Payable		$ 625,000

To record current year net usage of compensated absences

Capital Leases

Current year payments of capital leases are expensed within the modified accrual basis governmental fund types. However the principal is accounted for on the full accrual balance sheet as an obligation of the district and the current year principal payment will reduce this benefit. Interest is expensed as incurred.

Debit	Capital Leases Payable		$ 75,000	
	Credit	Rents and Leases		$ 75,000

To record current year principal payment of capital lease obligation

Long-Term Obligations

The district may enter into various types of debt to finance capital construction - primarily through General Obligation Bonds or Notes Payable, Certificates of Participation or other long-term agreements. As noted above, the payments within the modified accrual governmental fund types are recorded as a current period expense - both principal and interest. For the entity-wide full accrual financial statements, the current year principal payments will be recorded as a reduction of the full obligation.

Debit	General Obligation Bonds Payable		$ 11,500,000	
	Note Payable		3,250,000	
	Credit	Debt Service Expense Principal		$ 14,750,000

To record current year principal payments

To reflect new issuances of General Obligation Bonds or new Notes Payable issued:

Debit	Proceeds from Debt Issuance		$ 56,000,000	
	Deferred Costs on issuance		1,000,000	
	Credit	General Obligation Bonds Payable		$ 57,000,000

To record issuance of General Obligation Bonds

Many bond obligations will also have a premium or discount at the time of issuance that is amortized over the life of the obligation. In the example noting the beginning balance adjustments above there is a $2,600,000 asset for the Deferred Costs of Issuance that is included within the full accrual entity-wide financial statements. The amortization of the asset is a component of interest in the current year and accounted for as follows:

Debit	Interest Expense		$ 200,000	
	Credit	Deferred Costs of Issuance		$ 200,000

To record amortization of Bond issuance costs

Each year the liability for interest on bond and debt issuances that has accrued as of year-end, but is not due until the following fiscal year, must be accounted for within the full accrual, entity-wide financial statements. In the following example, principal and interest are due April 1 and October 1 of each year. The interest that accrues from April 1 through June 30, is a liability that will be recognized at year end as follows:

Debit	Interest Expense		$ 3,250,000	
	Credit	Accrued Interest Payable		$ 3,250,000

To record three months of interest payable as of year end

If not fully funded, the district is required to book the long term costs of Other Post Employment Benefits (OPEB) as of year-end. In the illustration of the beginning balance entries, the prior year accumulated liability of $8,500,000 is brought in to the beginning balance. At year end the current year component of the actuarially determined net OPEB obligation will need to be recorded. The offsetting entry will be employee benefit expense on the entity-wide financial statements:

Debit Employee Benefit expense		$ 8,500,000	
Credit	Other Post Employment Benefits Liability		$ 8,500,000

To record current year OPEB Expense

This listing is not all inclusive of every consolidating or conversion entry that is necessary to bring the Modified Accrual Fund financial statements in compliance with GASB Statement No. 35 *"Full Accrual Entity-Wide"* financial statement presentation. Discussions with your district auditors will assist in identifying other entries that are necessary for the individual district.

Chapter 7

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SPECIAL ACCOUNTING ISSUES

Separate Bank Accounts

It is the intent of the Board of Governors and the Chancellor's Office to encourage sound fiscal management practices among community college districts to facilitate the most efficient and effective use of moneys under district control. To that end, the Board of Governors has recognized district need to maintain authorized bank accounts for certain types of district/college functions and activities. Accordingly, the governing board of any community college district may, for the purpose of expediting business service transactions and in accordance with sound business practices, establish separate bank accounts for functions or revenue-producing activities or operations not directly associated with, but complementary to, the regular instructional and noninstructional functions of the district and colleges. Permissible operations include:

- Co-curricular activities (activities and events that are an extension of classroom instruction or related community college programs)
- The cafeteria
- The bookstore
- Farm operations
- Other Proprietary Funds
- Direct student financial aid (excluding work-study; see Student Financial Aid Funds)
- Scholarship and loan activities
- Self-insurance trust accounts
- The associated student body

All money on deposit by the district should be in a financial institution whose accounts are federally insured. Amounts in excess of the federal insurance limit should be collateralized by agreement with the financial institution.

Clearing Accounts

The governing board of any community college district may establish clearing accounts for the deposit and subsequent withdrawal of any miscellaneous receipts (including receipts from the sale of property or materials pursuant to *Education Code* Sections 81457 or 81458). All moneys in any such bank account shall be paid into the appropriate county treasury within a reasonable time period. However cashier's checks, certified checks, and money placed in the custody of the community college district as security that a bidder will faithfully perform a contract may be deposited in a bank account, but shall not be paid into the county treasury unless forfeited or not claimed by the bidder for a period of 12 months.

Annual Assessment of Need

All authorized separate bank accounts are to be annually presented to the governing board for its review and confirmation of continuing need.

Preconditions

Separate bank accounts must be established by governing board resolution. The resolution must state the necessity for the separate bank account, specific purposes for which the account will be used, and the district or college officials responsible as custodians.

The district's governing board resolution shall be submitted for informational purposes to the county superintendent of schools, county auditor, and county treasurer.

The names of the accounts must include at least the district/college name and some description of the purpose of the account (e.g., district/college name, Student Financial Aid Account).

Banks in which the district deposits federal moneys must be so notified in accordance with federal regulations:

> *Title IV program regulations require an institution to provide this notification by including the word "Federal" in the name of all accounts in which federal moneys will be deposited.*

All income derived from governing board-approved activities or functions shall be deposited in these accounts for authorized expenditure in accordance with rules and regulations of the governing board. The business services office shall assist the custodians in developing required accounting procedures and internal controls to safeguard all moneys in the accounts. The custodian of each account shall be responsible for the payment of all moneys received into the account.

It is the responsibility of each district to assess their risk and exposure and provide the appropriate insurance coverage, including appropriate bonding of custodians.

Financial Reporting

Bank accounts shall be reported in accordance with the prescribed community college fund structure and revenue and expenditure classifications established in this manual as follows:

Bank Accounts	**Reporting Funds**
Bookstore Account(s)	Bookstore Fund*
Cafeteria Account(s)	Cafeteria Fund*
Clearing Account(s)	General Fund, Other Agency Funds
Co-curricular Activities Account(s)	General Fund
Direct Student Financial Aid Account(s)	Student Financial Aid Trust Fund
Farm Operations Account(s)	Farm Operations Fund*
Other Enterprise Account(s)	Other Enterprise Fund
Other Internal Services Account(s)	Other Internal Services Fund
Retiree Benefits Account(s)	Other Internal Services Fund
Scholarship and Loan Activities Account(s)	Scholarship and Loan Trust Fund, Scholarship and Loan Agency Fund
Student Body Accounts	Fiduciary Funds
Self-Insurance Trust Account(s)	Self-Insurance Fund

*Under Special Revenue Funds or Enterprise Funds depending on governing board's intent.

If the district has an account not addressed in this list, the Chancellor's Office advice should be sought. Financial transactions must also be accounted for in a manner that meets the legal requirements imposed by any donors or granting agencies.

As determined by the district's business services office and governing board, the custodian must periodically prepare reports on the status of the account for review and inclusion in financial reports to the board. All separately established bank accounts must be included in the annual audit of the district required by *Education Code* Section 84040.

Revolving Funds

The district is authorized to establish, by governing board resolution, revolving funds for the use of the chief business officer and other designated officials in securing or purchasing services and/or materials, and for otherwise authorized purposes, including prepayments and salary advances.

The district may also establish a revolving fund in any bank whose deposits are insured by the Federal Deposit Insurance Corporation. Any check made payable to a vendor that permits the vendor to fill in the amount to be paid upon shipment of the purchase, shall state on its face that it is not valid for more than $100.

Preconditions

What follows is a general description of the preconditions for establishing revolving funds. Revolving funds must be established by governing board resolution. The resolution must state the necessity for the revolving fund, specific purpose for which the fund will be used (e.g., prepayment, securing or purchasing services or materials), the district or college officials who shall be responsible, and the amount to be maintained. A copy of the resolution shall be transmitted to the county auditor.

Revolving funds must be established in one or more banks insured by the Federal Deposit Insurance Corporation. Each fund shall be known as ***"The Revolving Fund of (name of district/college)"***. The fund must be established to the custody of the officer for whom the fund is created and who is responsible for the accounting of all moneys and expenditures subject to such regulations as the governing board prescribes.

The official who has control of the revolving fund must be bonded by an authorized surety company in an amount not less than double the amount of the revolving fund.

An invoice shall be presented to the district at least monthly for the reimbursement of the fund in the same manner as other invoices are presented. Invoices must be supported by required receipts.

Financial Reporting

The revolving funds must be reported as part of the district's General Fund beginning and ending cash balances.

Investments

The district is authorized to invest excess cash in accordance with *Government Code* Section 53600 et seq. The chief fiscal officer shall annually render to the governing board a statement of investment policy.

Financial Reporting

The chief fiscal officer shall prepare a quarterly report of investments within 30 days following the end of each quarter (*GC §*53646). The report shall state compliance of the investment portfolio to the statement of investment policy, or the manner in which the portfolio is not in compliance. It shall also state the district's ability to meet its expenditure requirements for the next six months, or provide an explanation as to why sufficient money may not be available.

CAPITAL LEASES

One of the most common ways community college districts acquire equipment is through lease-purchase agreements. Governmental Accounting and Financial Reporting Standards (GASB Codification) Section L20.109 requires that a lease agreement that meets any one of the following criteria be capitalized:

1. The lease transfers ownership of the property to the lessee by the end of the lease term.
2. The lease contains a bargain purchase option.
3. The lease term is equal to 75 percent or more of the estimated economic life of the leased property.
4. The value at the beginning of the lease's term of the minimum lease payments, excluding that portion of the payments representing executory costs to be prepaid by the lessor but including any profit thereon, equals or exceeds 90 percent of the excess of the fair value of the leased property to the lessor at the inception of the lease.

The following rules apply to accounting for capital leases in the governmental funds:

1. At the inception of the lease, record the capital lease in the fund acquiring the asset as a debit to Object 6400, Equipment, for the amount of the entire principal that is due. The credit is to Object 8900, Proceeds from Capital Leases.
2. As lease payments are made, record the payment in the fund acquiring the asset as a debit to Objects 7100, Debt Service- Interest, and 7100, Other Debt Service- Principal.

As an example of accounting for a capital lease, assume that a vehicle was leased for a five-year period, which is the economic life of the equipment. The lease is signed on June 30, 2012, and beginning on this date, five annual payments of $10,000 will be made.

The lease agreement contains the following amortization schedule, which shows the breakdown of the annual payments into the principal and interest components:

Amortization Schedule

Date	Lease Payment	Interest Expenditure	Principal Expenditure	Principal Balance
6/30/12				$41,710
6/30/12	$10,000		$10,000	$31,710
6/30/13	$10,000	$ 3,170	$ 6,830	$24,880
6/30/14	$10,000	$ 2,485	$ 7,515	$17,365
6/30/15	$10,000	$ 1,735	$ 8,265	$ 9,100
6/30/16	$10,000	$ 900	$ 9,100	$ 0

Note- The schedule above is usually computed from the amortization schedule provided in the lease agreement.

The amortization schedule is necessary to make the entries that are needed to record the capital lease.

The entries for the lease would be recorded as follows:

General Fund

Equipment	$41,710	
Proceeds from Capital Leases		$41,710

(To record the acquisition of equipment with a capital lease at 6/30/2012)

Other Debt Service- Principal	$10,000	
Cash in County Treasury		$10,000

(To record the first lease payment at 6/30/2012)

Debt Service- Interest	$ 6,830	
Other Debt Service- Principal	$ 3,170	
Cash in County Treasury		$10,000

(To record the second lease payment at 6/30/2013)

Appendix A

Common Terminology

50 Percent Law: The "50 Percent Law", as defined in *Education Code* Section 84362 and *California Code of Regulations* Section 59200 et seq., requires California Community College districts to spend each fiscal year 50% of the current expense of education for payment of salaries of classroom instructors. The intent of the statute is to limit class size and contain the relative growth of administrative and noninstructional costs. The *Annual Financial and Budget Report* (CCFS-311) includes actual data on the district's current expense of education and compliance with the 50% Law. (See Current Expense of Education.)

Abatement: A complete or partial cancellation of an item of income or expenditure.

Academic Employee: A district employee who is required to meet minimum academic standards as a condition of employment.

Account Code: A sequence of numbers and/or letters assigned to ledger accounts to classify transactions by fund, object, activity, etc.

Accounting: (1) The special field concerned with the design and implementation of procedures for the accumulation and reporting of financial data. (2) The process of identifying, measuring, and communicating financial information to permit informed judgments and decisions by users of the information.

Accounting Period: Any period of time at the end of which a district determines its financial position and results of operations.

Accounting Procedures: All processes which identify, record, classify, and summarize financial information to produce reports and to provide internal control.

Accounting System: The total structure of records and procedures which identify, record, classify, and report information on the financial operations of an agency through its funds, account groups, and organizational components.

Accounts Payable: A short-term liability account reflecting amounts due to others for goods and services received prior to the end of an accounting period (includes amounts billed, but not paid). Most of these definitions are from *Governmental Accounting, Auditing, and Financial Reporting* (GAAFR).

Accounts Receivable: An asset account reflecting amounts due from others for goods and services provided prior to the end of an accounting period (includes amounts advanced but not repaid).

Accrual Basis: The method of accounting which calls for recognizing revenue/gains and expenses/losses in the accounting period in which the transactions occur regardless of the timing of the related cash flows. (Contrast with Cash Basis.)

Activity: A set of institutional functions or operations related to an academic discipline or a grouping of services.

Actuarial Report: A report prepared by an actuary to determine the financial impact of risks and uncertainties. Generally used to determine the required contributions of post employment benefits or self insured liabilities.

Administrator: For the purpose of *Education Code* Section 84362, "Administrator" means any employee in a position having significant responsibilities for formulating district policies or administering district programs.

Ad Valorem Tax: A tax based on the assessed value of real estate or personal property.

Agency Fund: A fund used to account for assets held by a governmental unit as an agent for individuals, private organizations, other governments, and/or other funds; for example, taxes collected and held by the county for a college district.

Allocation: Division or distribution of resources according to a predetermined plan.

Amortization: (1) The portion of the cost of a limited-life or intangible asset charged as an expense during a particular period. (2) The reduction of debt by regular payments of principal and interest sufficient to retire the debt by maturity.

Annual Appropriation Limit (Gann Limit): In California, all governmental jurisdictions, including community college districts, must compute an annual appropriation limit based on the amount in prior years adjusted for changes in population, cost-of-living, and other factors, if applicable (Article XIII-B of the *State Constitution*).

Annuity: A series of equal money payments made, or received, at equal intervals during a designated period of time.

Apportionment: Allocation of State or Federal aid, district taxes, or other moneys to community college districts or other governmental units.

Apportionment Notice: A document notifying community college districts of moneys deposited on their behalf with the county treasurer.

Appraisal: An estimate of value made by the use of systematic procedures based upon physical inspection and inventory, engineering studies, and other economic factors.

Appropriation: A legal authorization granted by a legislative or governing body to make expenditures and incur obligations for a specified time and purpose.

Appropriation for Contingencies: That portion of current fiscal year's budget not appropriated for any specific purpose and held subject to intra budget transfer, i.e., transfer to other specific appropriations as needed during the fiscal year.

Appropriation Ledger: A set of accounts for amounts allocated or budgeted. Such accounts usually show the amount originally appropriated, transfers to or from other accounts, amounts charged against the appropriation, encumbrances, unencumbered balances, and other related information.

Arbitrage: Classically, the simultaneous purchase and sale of the same or an equivalent security in order to profit from price discrepancies. In government finance, the most common occurrence of arbitrage involves the investment of the proceeds from the sale of tax-exempt securities in a taxable money market instrument that yields a higher rate, resulting in interest revenue in excess of interest costs.

Assessed Valuation: Value placed upon personal and real property by a governmental unit as a basis for levying taxes.

Assessment: (1) The process of making the official valuation of property for purposes of taxation. (2) The valuation placed upon property as a result of this process.

Assessment Roll: In the case of real property, the official list containing the legal description of each parcel of property and its assessed valuation. The name and address of the last known owner are usually listed. In the case of personal property, the assessment roll is the official list containing the name and address of the owner, a description of the personal property, and its assessed value.

Asset: A probable future economic benefit obtained or controlled by an entity as a result of past transactions or events. (See also Current assets and Fixed assets.)

Associated Students Fund: The fund designated to account for moneys held in trust by the district for student body associations.

Audit: An official examination and verification of financial statements and related documents, records, and accounts for the purpose of determining the propriety of transactions, whether transactions are recorded properly, and whether statements drawn from accounts reflect an accurate picture of financial operations and financial status. Audit procedures may also include examination and verification of compliance with applicable laws and regulations, economy and efficiency of operations, and effectiveness in achieving program results. The general focus of the annual audit conducted on the district is usually a financial statement examination and compliance audit.

Auditors' Opinion: A statement signed by an auditor which states that she or he has examined the financial statements of the entity in accordance with generally accepted auditing standards (with exceptions, if any) and expresses an opinion on the financial position and results of operations of an entity.

Automated Clearing House (ACH): A nationwide banking network that provides for electronic distribution and settlement of funds.

Auxiliary Enterprise: Self-supporting activities which provide non-instructional support in the form of goods and services to students, faculty, and staff upon payment of a specific user charge or fee for the goods and services provided (e. g. Student Housing, Transportation and Parking Services). The general public may be served only incidentally.

Available Cash: Cash on hand or on deposit in a given fund that is unencumbered and can be utilized for meeting current obligations.

Balance Sheet: A basic financial statement that shows assets, liabilities, and equity of an entity as of a specific date conformity with GAAP.

Balanced Budget: A budget in which receipts are equal to or greater than outlays in a fiscal period.

Basis of Accounting: A term used to refer to *when* revenues, expenditures, expenses, and transfers–and the related assets and liabilities–are recognized in the accounts and reported in the financial statements. Specifically, it relates to the *timing* of the measurements made, regardless of the nature of the measurement, on either the cash or the accrual method.

Bond: Most often, a written promise to pay a specified sum of money, called the face value, at a specified date or dates in the future, called the maturity date(s), together with periodic interest at a specified rate.

Bond Anticipation Note: Debt instrument used to secure short term financing in anticipation of a Bond issuance.

Bond Discount: The excess of the face value of a bond over the price (exclusive of accrued interest) for which it is acquired or sold.

Bond Interest and Redemption Fund: The fund designated to account for receipt and expenditure of property tax revenue specified for payment of the principal and interest on outstanding bonds of the district. (See also Revenue Bond Interest and Redemption Fund.)

Bond Premium: The excess of the purchase or sale price of a bond, exclusive of accrued interest, over its face value.

Bonded Debt: The portion of district indebtedness represented by outstanding bonds.

Bonds Authorized and Unissued: Legally authorized bonds that have not been sold.

Book Value: Value as shown in the "book" of accounts. In the case of assets subject to reduction by valuation allowances, "book value" refers to cost or stated value less any appropriate allowance. A distinction is sometimes made between "gross book value" and "net book value", the former designating value before allowances, and the latter after their deduction. In the absence of any modifier, however, "book value" is synonymous with "net book value."

Books of Original Entry: The ledgers in which transactions are formally recorded for the first time (e.g. the cash journal, check register, or general journal). With automated bookkeeping methods, one transaction may be recorded simultaneously in several records, one of which may be regarded as the book of original entry. Memorandum books, check stubs, files of duplicate sales invoices, etc., whereon first or prior business notations may have been made, are not books of original entry in the accepted meaning of the term, unless they are also used as the medium for direct posting to the ledgers.

Bookstore Fund: The fund designated to account for operation of the college store.

Budget: A plan of financial operation for a given period consisting of an estimate of expenditures and the proposed means of financing them. The most common assumptions of budgeting include:

- Centralized Budget: This budget localized resource allocation into central operations. A strategy used to provide additional control is usually instituted when resources are reduced. This tends to be a leaner allocation since there is only a single institutional contingency needed.
- Decentralized Budget: This budget process allows resource allocation to take place outside of central operations, giving greater control to the programs that have direct

interaction with students. Because the contingency must be spread over a large number of departments or programs, these budgets tend to be larger than those of the same size organization with a centralized budget.

- Incremental or Rollover Budget: This is the most widely used form of budgeting in higher education. It assumes that each year is relatively the same and that any new activity is an add-on. It is the most efficient, cost-effective way to budget and usually has a large centralized component. It focuses on inputs rather than outcomes.
- Zero-based Budget: This type of budget assumes that each year stands on its own. All expenditures must be justified each year. This strategy creates a very lean budget with only known expenditures present.
- Formula Budget: Objective formulas based on systematic data are used to distribute resources to ensure each program or entity is receiving a fair share. This is most often used at the state level.
- Planning, Programming, and Budgeting Systems (PPBS): This system focuses on cost benefits and continuous analysis of alternatives for each program and systematically links them to the strategic plan.
- Incentive-Driven Budget: This budget falls into two categories. The first is used at the state level to provide up-front funding to achieve a specific outcome. The second is used in research institutes to decentralize resource allocation to the various departments so that more timely and accurate decisions can be made.
- Performance-Driven Budget: This process uses performance measures to allocate resources and is used primarily at the state level. In this model the funding comes after the measures have been achieved. It has been successfully implemented in the K-12 environment.
- Responsibility/or Cost Center Budget: This model recognizes that each instructional program can stand on its own and has a relative ability to generate income. This model allocates all of the revenue to each department and uses a charge back or tax to cover the expenses of the cost centers like central services.

Budget Document: The instrument used by the budget-making authority to present a comprehensive financial program to the governing authority (form CCFS-311 for California Community Colleges). Included is a balanced statement of revenues and expenditures (both actual and budgeted), as well as other exhibits.

Budgetary Control: The management of business affairs in accordance with an approved plan of estimated income and expenditures.

Budgeting: The process of allocating available resources among potential activities to achieve the objectives of an organization.

Cafeteria Fund: The fund designated to account for food services.

Capital Assets: See Fixed Assets.

Capital Outlay: The acquisition of or additions to fixed assets, including land or existing buildings, improvements of grounds, construction of buildings, additions to buildings, remodeling of buildings, or equipment.

Capital Outlay Projects Fund: The fund designated to account for the accumulation of receipts and disbursements for the acquisition or construction of capital outlay items. A fund established under Capital Projects Funds.

Capital Projects Fund Type: Category of funds in the Governmental Funds Group used to account for the acquisition or construction of capital outlay items.

Cash: An asset account reflecting currency, checks, money orders, bank deposits, and banker's drafts either on hand or on deposit with an official or agent designated as custodian of cash. Any restrictions or limitations as to the use of cash must be indicated.

Cash Advance: Money received or paid out before the goods or services.

Cash Basis of Accounting: Method of accounting in which income and expenditures are recorded only when cash is actually received or disbursed.

Cash Collections Awaiting Deposit: Receipts on hand or in the bank awaiting deposit in the county treasury.

Cash Discount: An allowance received or given for payment made on an account within a stated period. The term is not to be confused with "trade discount."

Cash in Bank: Cash balances in bank accounts.

Cash in County Treasury: Cash balances in the county treasury.

Cash with Fiscal Agent: An asset account reflecting deposits with fiscal agents, such as a commercial bank or a trust company, designated by the district to act as a fiduciary and as the custodian of moneys relating to debt financing.

CFDA: Catalog of Federal Domestic Assistance (Website location: www.cfda.gov).

Categorical Funding: Allocations that are required to be spent in a particular way or for a designated program.

Certificate of Participation (COP): A type of financing where an investor purchases a share of the lease revenues of a program.

Certified Public Accountant: An accountant to whom a State has granted a certificate showing that he or she has met prescribed educational experience, and examination requirements designed to insure competence in the practice of public accounting. The accountant holding such a certificate is permitted to use the designation Certified Public Accountant.

Chart of Accounts: A systematic list of accounts applicable to a specific entity.

Check: A written order on a bank to pay on demand a specific sum of money to the order of the named payee(s) out of money on deposit to the credit of the maker (payor).

Child Development Fund: The fund designated to account for child development services.

Classification: Assignment of items into a system of categories.

Classification by Activity: Categorization of district activities according to the unique function or purpose served.

Classified Employee: A district employee who is not required to meet minimum academic standards as a condition of employment.

Clearing Accounts: Accounts used to accumulate total receipts for clearing prior to depositing the funds with the county treasury and distributing to the accounts to which such receipts are properly allocable.

Code: (1) A distinguishing reference number or symbol. (2) A statement of the laws of a specific field; e.g., *Education Code* (EC), *Penal Code* (PC), *Civil Code* (CC), *Labor Code* (LC), etc.

Coding: A system of numbering or otherwise designating accounts, entries, invoices, vouchers, etc., in such a manner that the symbol used reveals quickly certain required information. An example is the numbering of monthly recurring journal entries to indicate the month and the nature of the entry and the numbering of invoices or vouchers so that the number reveals the date of entry.

Cognizant Agency: The Federal agency responsible for reviewing, negotiating, and approving cost allocation plans, or indirect cost proposals developed under OMB Circular A-87 on behalf of all Federal agencies.

COLA: Cost of Living Allowance.

Commingling: To deposit or record funds in a general account without the ability to identify each specific source of funds for any expenditure

Community Services: Educational, cultural, and recreational services which an educational institution may provide for its community in addition to its credit and noncredit programs. Community college districts receive no direct State apportionment for community services.

Compensated Absences: Absences, such as vacation, and compensatory time off for which it is expected employees will be paid. The term does not encompass severance or termination pay, postretirement benefits, deferred compensation, or other long-term fringe benefits, such as group insurance, and long-term disability pay.

Construction in Progress (CIP): A general ledger account that reflects that cost of construction work undertaken on capital projects, but not completed as of the end of the accounting period.

Contingent Liabilities: Items which may become liabilities as a result of conditions undetermined at a given date, such as guarantees, pending law suits, judgments under appeal, unsettled disputed claims, unfilled purchase orders, and uncompleted contracts. All contingent liabilities should be disclosed within the basic financial statements, including the notes thereto when there is a reasonable possibility a loss may have occurred.

Contracted Services: Services rendered by personnel who are not on the payroll of the college system, including all related expenses covered by the contract.

Contributed Capital: The permanent fund capital of a proprietary fund. Contributed capital forms one of two classifications of equity found on the balance sheet of a proprietary fund. Contributed capital is created when a residual equity transfer is received by a proprietary fund, when a fixed asset is "transferred" to a proprietary fund, or when a grant is received that is externally restricted to capital acquisition or construction. Contributions restricted to capital acquisition and construction and fixed assets received from developers and customers, as well as amounts of tap fees in excess of related costs, also would be reported in this category.

Controlling Account: A summary account, usually maintained in the general ledger, in which is recorded the aggregate of debit and credit postings to a number of identical, similar, or related accounts called subsidiary accounts. Its balance equals the sum of the balances of the detailing accounts.

Conversion Entries: Entries performed of public entities at year-end to convert the modified accrual fund financial statements into full accrual, entity-wide GASB 35 compliant financial statements.

Cost: The amount of money or other consideration exchanged for goods or services. Cost may be incurred even before money is paid; that is, as soon as liability is incurred.

Cost Accounting: The method of accounting which provides for the assembling and recording of all the elements of cost incurred to accomplish a purpose, to carry on an activity or operation, or to complete a unit of work or a specific job.

Cost of Goods Sold: The dollar amount incurred for materials, labor, etc., used in producing a good sold during the period. For example, amount paid for lumber, labor, and utilities used to manufacture a chair would be the cost of that item.

Credit: The right side of a double-entry accounting entry. A credit reduces assets or expenditures and increases income, liabilities, or fund balance.

Current Asset: Assets that are available or can be made readily available to pay for the cost of current operations or to pay current liabilities.

Current Expense of Education (CEE) – *EC §*84362, *CCR §*59200 et seq: The Unrestricted General Fund expenditures of a community college district in Objects of Expenditure 1000 through 5000 and 6400 (Equipment Replacement Subobject) for activity codes 0100 through 6700 for the calculation of compliance with the 50% Law. Excluded from the current expense of education are expenditures for student transportation, food services, community services, lease agreements for plant and equipment, and other costs specified in law and regulations. Amounts expended from State Lottery proceeds are also excluded. (See 50 Percent Law.)

Current Liabilities: Amounts due and payable for goods and services received prior to the end of the fiscal year. Current liabilities are paid within a relatively short period of time, usually within a year.

Current Loan: A loan payable in the same fiscal year in which the money was borrowed.

Current Taxes: Taxes levied and becoming due within one year.

Debarment: An action taken by a Federal agency to exclude a person or company from participating in covered transactions. A person or company so excluded is "debarred".

Data Processing: (1) The preparation and handling of information and data from source media through prescribed procedures to obtain such end results as classification, problem solution, summarization, and reports. (2) The preparation and handling of financial information wholly or partially by mechanical or electronic means. (See Electronic Data Processing [EDP].)

Debit: The left side of a double-entry accounting entry. A debit increases assets or expenditures and reduces income, liabilities, or fund balance.

Debt Limit: The maximum amount of bonded debt for which an entity may legally obligate itself.

Debt Service: Expenditures for the retirement of principal and interest on long-term debt.

Deferrals: State withhold of apportionment funding due to cash flow shortages.

Deferred Charges: Expenditures that are not chargeable to the fiscal period in which they are made, but that are carried as an asset on the balance sheet pending amortization or other disposition (e.g., bond issuance costs). Deferred charges differ from prepaid items in that they usually extend over a long period of time and are not regularly recurring costs of operations which are paid for prior to their occurrence. Examples include discounted bonds sold and prepaid expenses, such as insurance.

Deferred Revenue: Revenue received prior to being earned such as bonds sold at a premium, advances received on Federal or State program grants, or enrollment fees received for a subsequent period.

Deficit: (1) The excess of liabilities over assets. (2) The excess of expenditures or expenses over revenues during an accounting period.

Deficit Factor: Applied to Apportionment Revenue based on available funding from the State Chancellor's Office.

Delinquent Taxes: Taxes remaining unpaid on or after the date on which a penalty for nonpayment is attached (see also Prior Years' Taxes).

Depreciation: Expiration in the service life of fixed assets, other than wasting assets, attributable to wear and tear, deterioration, action of the physical elements, inadequacy and obsolescence. In accounting for depreciation, the cost of a fixed asset, less any salvage value, is prorated over the estimated service life of such an asset, and each period is charged with a portion of such cost. Through this process, the entire cost of the asset is ultimately charged off as an expense.

Designated Income: Income received for a specific purpose.

Direct Activity Charges: Charges for goods or services that exclusively benefit the activity.

Direct Expenses or Costs: Expenses specifically traceable to specific goods, services, activities, programs, functions, units, or departments.

Disbursements: Payments by currency, check, or warrant (the term is not synonymous with expenditures).

Double Entry: A system of bookkeeping that maintains equality of debits and credits.

Drawdown: Process whereby a State or district requests and receives Federal funds.

Due From Other Fund: An asset account used by the lender fund to reflect short-term obligations owed by another fund.

Due To Other Fund: A liability account used by the borrowing fund to reflect short-term obligations owed to another fund.

Interest Income: A sum of money received or due to be received for the use of money loaned or invested.

Educational Administrator: *Education Code* Section 87002 and *California Code of Regulations* Section 53402(c) define "educational administrator" as an administrator who is employed in an academic position designated by the governing board of the district as having direct responsibility for supervising the operation of or formulating policy regarding the instructional or student services program of the college or district. Educational administrators include, but are not limited to, chancellors, presidents, and other supervisory, or management employees designated by the governing board as educational administrators.

Effective Interest Rate: The rate of earning on a bond investment based on the actual price paid for the bond, the coupon rate, the maturity date, and the length of time between interest dates, in contrast with the nominal interest rate.

Electronic Data Processing (EDP): Data processing by means of electronic equipment.

Eminent Domain: The power of a government to acquire private property for public purposes. It is frequently used to obtain real property which cannot be purchased from owners in a voluntary transaction. Where the power of eminent domain is exercised, owners are compensated by the government in an amount determined by the courts.

Employee Benefits: Amounts paid by an employer on behalf of employees. Examples are group health or life insurance payments, contributions to employee retirement, district share of O.A.S.D.I. (Social Security) taxes, and workers' compensation payments. These amounts are not included in the gross salary, but are over and above. While not paid directly to employees, they are a part of the total cost of employees.

Encumbrances: Commitments related to unperformed (executory) contracts for goods or services. Used in budgeting, encumbrances are not GAAP expenditures or liabilities, but represent the estimated amount of expenditures ultimately to result if unperformed contracts in process are completed.

Enterprise Funds: A subgroup of the Proprietary Funds Group used to account for operations when the governing board has decided either that the total cost of providing goods and services on a continuing basis (expenses including depreciation) be financed or recovered primarily through user charges; or that the periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Entitlement: The amount of payment to which an entity is entitled pursuant to an allocation formula contained in applicable statutes.

Entry: (1) The record of a financial transaction in its appropriate book of account. (2) The act of recording a transaction in the books of account.

Equipment: Tangible property with a purchase price of at least $200 and a useful life of more than one year, other than land or buildings and improvements thereon. (See Appendix D, Guidelines for Distinguishing Between Supplies and Equipment.)

Estimated revenue: Expected receipt or accruals of moneys from revenue or nonrevenue sources during a given period.

Expendable Trust Fund: A Trust Fund whose resources, including both principal and earnings, may be expended. Expendable Trust Funds are accounted for in essentially the same manner as governmental funds.

Expenditures: Payment of cash or cash equivalent for payroll, goods or services, or a charge against available funds in settlement of an obligation.

Expense of Education: This includes all General Fund expenditures, restricted and unrestricted, for all objects of expenditure 1000 through 5000 and all expenditures of activity from 0100 through 6700. (See also 50% Law.)

Expenses: Outflows or other using up of assets or incurrences of liabilities (or a combination of both) from delivering or producing goods, rendering services or carrying out other activities that constitute the entity's ongoing major or central operations.

Face value: The value stated on a negotiable instrument. As applied to securities, the amount stated in the security document.

Farm Operation Fund: The fund designated to account for the operation of the college farm.

Fees: Amounts collected from or paid to individuals or groups for services or for use purchase of goods or services.

Fidelity bond: A written promise to indemnify an employer for losses arising from theft, defalcation, or misappropriation of moneys by government officers and employees.

Fiduciary Funds Group: A group of funds used to account for assets held by the district in a trustee or agent capacity on behalf of individuals, private organizations, student organizations, other governmental units, and/or other funds.

Financial and Compliance Audit: An examination leading to the expression of an opinion on (1) the fairness of presentation of the audited entity's basic financial statements in conformity with GAAP, and (2) the audited entity's compliance with the various finance-related legal and contractual provisions used to assure acceptable governmental organizational performance and effective management stewardship. Public sector oversight bodies typically require independent auditors to include responses to standardized legal compliance audit questionnaires in financial and compliance audit reports.

Financial resources: Cash and other assets that, in the normal course of operations, will become cash.

Fiscally Independent/Fiscally Dependent Government: A government is fiscally independent if it can (1) determine its budget without another government having the substantive authority to approve and modify that budget, (2) levy taxes or set rates or charges without substantive approval by another government, and (3) issue bonded debt without substantive approval by another government. A government is fiscally dependent if it is unable to complete one or more of these procedures without the substantive approval of another government.

Fiscal year: A 12-month period to which the annual operating budget applies and at the end of which a government determines its financial position and the results of its operations. For governmental entities in the State of California, the period beginning July 1 and ending June 30.

Fixed assets: Long-lived tangible assets having continuing value such as land, buildings, machinery, furniture, and equipment.

Fixed costs: Costs of providing goods and services that do not vary proportionately to enrollment or to the volume of goods or services provided (e.g., insurance and contributions to retirement systems).

Fixtures: Attachments to buildings that are not intended to be removed and cannot be removed without damage to the buildings. Those fixtures with a useful life presumed to be as long as that of the building itself are considered a part of the building; all others are classified as equipment.

Flow of Current Financial Resources: A measurement focus that recognizes the net effect of transactions on current financial resources by recording accruals for those revenue and expenditure transactions which have occurred by year end that are normally expected to result in cash receipt or disbursement early enough in the following year either (a) to provide financial resources to liquidate liabilities recorded in the fund at year end, or (b) to require the use of available expendable financial resources reported at year end.

Flow of Economic Resources: The measurement focus used in the commercial model and in proprietary and similar trust funds to measure economic resources, the claims to those economic resources and the effects of transactions, events, and circumstances that change economic resources and claims to those resources. This focus includes depreciation of fixed assets, deferral of unearned revenues and prepaid expenses, and amortization of the resulting liabilities and assets. Under this measurement focus, all assets and liabilities are reported on the balance sheet, whether current or noncurrent. Also, the accrual basis of accounting is used, with the result that operating statements report expenses rather than expenditures.

Flow of Financial Resources Measurement Focus: A measure of the extent to which financial resources obtained during a period are sufficient to cover claims incurred during that period against financial resources, and the net financial resources available for future periods. This is accomplished by measuring the increases and decreases in net financial resources and the balances of and claims against financial resources using an accrual basis of accounting. This definition uses the term "financial resources" in a way that differs from its current use. See Financial Resources. In this instance, the term means cash, claims to cash (e.g., accounts and taxes receivable), and claims to goods or services (e.g., prepaid items) obtained or controlled as a result of past transactions or events. (See Flow of Current Financial Resources.)

Full-Time Equivalent (FTE) Employees: Ratio of the hours worked based upon the standard work hours of one full-time employee. For example, classified employees may have a standard work load of 40 hours per week, if several classified employees worked 380 hours in one week, the FTE conversion would be 380/40 or 9.5 FTE.

Full-Time Equivalent (FTE) Faculty: Ratio of the standard work load for a full-time faculty, (e.g. 15 units).

Full-Time Equivalent Faculty Obligation: The number of full-time faculty positions that are required to be maintained within a district per Title 5 Section 51025. This section requires a community college district to increase the number of full-time faculty over the prior year in proportion to the amount of growth in funded credit FTES. The inverse applies when there are Workload Measure Reduction.

Full-Time Equivalent Students (FTES): An FTES represents 525 class (contact) hours of student instruction/activity in credit and noncredit courses. Full-time equivalent student (FTES) is one of the workload measures used in the computation of state aid for California Community Colleges. (See form CCFS-320, "Apportionment Attendance Report.")

Functional accounting: A system of accounting in which records are maintained to accumulate income and expenditure data by purpose and usually are further classified within generalized functional areas such as instruction, administration, or operations.

Fund: An independent fiscal and accounting entity with a self-balancing set of accounts for recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein.

Fund balance: The difference between fund assets and fund liabilities of governmental and similar trust funds.

Fund group: Compilation of two or more individual funds used to report sources and uses of resources in providing some major service or group of services.

Gann Limit: See Annual Appropriation Limit.

Generally Accepted Accounting Principles (GAAP): These are the uniform minimum standards for financial accounting and reporting. They govern the form and content of the financial statements of an entity. GAAP encompass the conventions, rules, and procedures to define accepted accounting practice at a particular time. They include not only broad guidance of general application, but also detailed practices and procedures. The primary authoritative body on the application of GAAP to state and local governments is the Governmental Accounting Standards Board (GASB).

General Fund: The fund used to account for the ordinary operations of the district. It is available for any legally authorized purpose not specified for payment by other funds.

General ledger: A record containing the accounts needed to reflect the financial position and the results of operations. General ledger accounts may be kept for any group of items of receipts or expenditures.

General Reserve: An account to record the reserve budgeted to provide operating cash in the succeeding fiscal year until taxes and State funds become available.

Gift: Anything of value received from any source for which no repayment or service to the contributor is expected.

Governmental accounting: The composite activity of analyzing, recording, summarizing, reporting, and interpreting the financial transactions of a governmental entity.

Governmental Accounting Standards Board (GASB): The authoritative accounting and financial reporting standard-setting body for governmental entities.

Governmental funds: Grouping of funds used to account for activities directly related to an institution's educational objectives. These funds include the General Fund, Debt Service Funds, Special Revenue Funds, and Capital Project Funds.

Governmental-Type Activities: Those activities of a government that are carried out primarily to provide services to citizens and that are financed primarily through taxes and intergovernmental grants.

Grants: Contributions or gifts of cash or other assets from another government or private organization to be used or expended for a specified purpose, activity, or facility.

Gross profit: Net sales less cost of goods sold exclusive of selling and general expenses within the Proprietary or Enterprise Funds.

Gross Sales: Total sales before deduction of sales returns and sales allowance.

Imprest account: An account into which a fixed amount of money is placed to make minor disbursements or for a specific purpose. As disbursements are made, a voucher is completed to record their date, amount, nature, and purpose. At periodic intervals, or when the money is completely expended, a report with substantiating vouchers is prepared and the account is replenished for the exact amount of the disbursements, and appropriate general ledger accounts are charged. The total of cash plus substantiating vouchers must at all times equal the total fixed amount of money set aside in the imprest account. (See Petty cash and Revolving cash account.)

Income: A term used in proprietary fund-type accounting to represent (1) revenues, or (2) the excess of revenues over expenses.

Indirect expenses or costs: Those elements of cost necessary in the production of a good or service which are not directly traceable to the product or service. Usually these costs relate to objects of expenditure that do not become an integral part of the finished product or service, such as rent, heat, light, supplies, management and supervision.

In-Kind Contributions: "Third party in-kind contributions" means the value of non-cash contributions provided by non-federal third parties. Third party in-kind contributions may be in the form of real property, equipment, supplies, and other expendable property and the value of goods and services directly benefiting and specifically identifiable to the project or program.

Instructional aide: A person employed to assist classroom instructors and other certificated personnel in the performance of their duties; in the supervision of students; and in instructional tasks which, in the judgment of the certificated personnel to whom the instructional aide is assigned, may be performed by a person not licensed as a classroom instructor (*EC §*88243).

Interest: A fee charged a borrower for the use of money.

Interfund accounts: Accounts in which transactions between funds are reflected.

Interfund transfers: Money that is taken from one fund and added to another fund without an expectation of repayment.

Internal audit: An examination made by one or more employees to make continuous or periodic checks to determine whether acceptable policies and procedures are followed, established standards are met, resources are used efficiently and economically, accounting and reporting procedures are reliable, and the organization's objectives are being achieved.

Internal control structure: A plan of organization in which employees' duties are arranged and records and procedures designated to provide a system of self-checking, thereby enhancing accounting control over assets, liabilities, income, and expenditures. Under such a system the employees' work is subdivided so that no one employee performs a complete cycle of operation; such procedures call for proper delegation by designated officials.

Internal Service Funds: A subgroup of the Proprietary Funds Group used to account for the financing of goods or services provided on a cost reimbursement basis by one department to other departments within or outside the community college district.

Intrabudget transfers: Amounts transferred from one appropriation account to another within the same fund.

Intrafund transfer: The transfer of moneys within a fund of the district.

Inventory: A detailed list showing quantities and description of property on hand at a given time. It may also include units of measure, unit prices, and values.

Instructional Service Agreement: An agreement with a third party to provide instruction which is open to all students and is eligible for apportionment if specific criteria are met. See Appendix C for the Contract Guide for Instructional Service Agreements between College Districts and Public Agencies.

Investments: Securities, real estate, etc., held for the production of revenues in the form of interest, dividends, rentals, or lease payments. The term excludes fixed assets used in governmental operations.

Invoice: An itemized statement of charges from the vendor to the purchaser for merchandise sold or services rendered.

Journal: Any accounting record in which financial transactions of an entity are formally recorded for the first time; e.g., the cash receipts book, check register, and journal voucher.

Journal voucher: A form provided for the recording of certain transactions or information in place of, or supplementary to, the journal or registers.

Judgments: Amounts due to be paid or collected by an entity as the result of court decisions.

Ledger: A group of accounts in which the financial transactions of a governmental unit or other organization are recorded. (See also General ledger and Appropriation ledger.)

Levy: The imposition of taxes, special assessments, or service charges for the support of governmental activities; also, the total amount of taxes, special assessments, or service charges imposed by a governmental unit.

Liabilities: Debt or other legal obligations (exclusive of encumbrances) arising out of transactions in the past which must be liquidated, renewed, or refunded at some future date.

LEA (Local Educational Agency): A public board of education or other public authority legally constituted within a state for either administrative control of or direction of, or to perform service functions for, public elementary or secondary schools in: a city, county, township, school district, or other political subdivision of a state; or such combination of school districts or counties a state recognizes as an administrative agency for its public elementary or secondary schools. Any other public institution or agency that has administrative control and direction of a public elementary school or secondary school. As used in 34 CFR, Part 400, 408, 525, 526, and 527 (vocational education programs), the term also includes any other public institution or agency that has administrative control and direction of a vocational education program.

Long-term debt: A borrowing that extends for more than one year from the beginning of the fiscal year.

Marginal costs: Costs incurred as a result of adding one unit of enrollment or production.

Matching funds: The value of third-party, in-kind contributions and that portion of the costs of a grant supported project or program not borne by the Federal government.

Measurement Focus: The accounting convention that determines (1) which assets and which liabilities are included on a government's balance sheet and where they are reported there, and (2) whether an operating statement presents information on the flow of financial resources (revenues and expenditures) or information on the flow of economic resources (revenues and expenses).

Modified accrual basis (modified cash basis): The accrual basis of accounting adapted to the governmental fund-type measurement focus. Under it, revenues and other financial resource increments (e.g., bond issue proceeds) are recognized when they become susceptible to accrual, that is when they become both "measurable" and "available" to finance expenditures of the current period." "Available" means collectible in the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures are recognized when the fund liability is incurred except for (1) inventories of materials and supplies that may be considered expenditures either when purchased or when used, and (2) prepaid insurance and similar items that may be considered expenditures either when paid for or when consumed. All governmental funds, expendable trust funds and agency funds are accounted for using the modified accrual basis of accounting.

Multiyear Financial Plan (MYFP): A plan that presents financial estimates of programs in tabular form for a period of years. These estimates would reflect the future financial impact of current decisions. Data in the MYFP should be organized along the lines of the program structure.

Net assets: The residual value left for future expense after deducting all liabilities from all assets within the entity-wide financial statements.

Net profit: Gross profit less selling and general expenses.

Nonexpendable Trust Fund: A Trust Fund, the principal of which may not be expended. Nonexpendable Trust Funds are accounted for on a full accrual basis of accounting.

Nonrevenue receipts: Amounts received that either incur an obligation that must be met at some future date or change the form of an asset from property to cash and therefore decrease the amount and value of property. Money received from loans, sale of bonds, sale of property purchased from capital funds, and proceeds from insurance adjustments constitute most nonrevenue receipts.

Object Code: Revenue or Expenditure classification within the system – wide chart of accounts.

Obligations: Amounts that an entity may be legally required to pay out of its resources. Included are not only actual liabilities, but also unliquidated encumbrances. (See also Liabilities.)

OMB: The United States Office of Management and Budget (Web site: www.omb.gov).

OMB Circular A-21: Defines direct and indirect costs for purposes of accounting for Federal funds. (See http://www.whitehouse.gov/omb/circulars/a021/a021.html.)

Operating expenses: Expenses related directly to the entity's primary activities. Generally used in proprietary funds and the full accrual entity-wide financial statements.

Operating income. Revenues received directly related to the entity's primary activity. Generally used in proprietary funds and the full accrual entity-wide financial statements.

Opportunity costs: The value of an activity or opportunity that must be foregone to implement an alternative.

Overdraft: The amount by which checks, drafts, or other demands for payment on the treasury or on a bank account exceed the amount of the balance upon which they are drawn; or the amount by which encumbrances and expenditures exceed the appropriation to which they are chargeable.

Other Post-Employment Benefits (OPEB): Post-employment benefits that an employee will begin to receive at the start of retirement. This does not include pension benefits paid to the retired employee. Other post-employment benefits that a retiree can be compensated for are life insurance premiums, healthcare premiums, and deferred-compensation arrangements.

Par value: The nominal or face value of a security.

Payroll register: A document accompanying one or more orders on a fund for the payment of salaries or wages to employees which contains the names of such employees and provides information substantiating such orders.

Payroll warrant: A document used as an order or a requisition on funds of an entity to pay salaries or wages.

Periodic Inventory: A system whereby the entity performs a physical count of its inventory periodically, at least annually at fiscal year end.

Perpetual Inventory: A system whereby the inventory quantities and values for all purchases and issuances are recorded directly in the inventory system as they occur.

Petty cash: A sum of money set aside on an imprest basis to make change or to pay small accounts for which the issuance of a formal voucher and check would be too expensive and time consuming. (See also Imprest account and Revolving cash account.)

Posting: The act of transferring data in an account in a ledger the data, either detailed or summarized, from a book or document of original entry to an account in a ledger.

Prepaid expenses: Goods or services for which payment has been made, but for which benefits have not been realized as of a certain date; e.g., prepaid rent, prepaid interest, and premiums on unexpired insurance. Expenses are recorded in the accounting period in which the related benefits are received.

Prior Years' Taxes: Taxes received in the current fiscal year for delinquencies or impounds in previous fiscal years.

Program: Category of activities with common outputs and objectives. A program may cut across existing departments and agencies.

Program accounting: A system of accounting in which records are maintained to accumulate income and expenditure data by program rather than by organization or by fund.

Program costs: Costs incurred and allocated by program rather than by organization or by fund.

Property tax rate: See Tax rate.

Proprietary Funds Group: A group of funds used to account for those ongoing government activities which, because of their income-producing character, are similar to those found in the private sector.

Proration: Allocation of expenditures or income from a single source to two or more accounts to show the correct distribution of charges or income.

Protested (*impounded*) **taxes:** Tax money paid under protest and held by the county auditor pending settlement of the protest.

Purchase order: A document authorizing the delivery of specified merchandise or the rendering of certain services and the making of a charge for them.

RFP: Request for Proposal

RFQ: Request for Quote

RFR: Request for Review

RIF: Reduction in Force

Real property: Property consisting of land, buildings, minerals, timber, landscaping, and related improvements.

Reasonable Assurance: The concept that internal control, no matter how well designed and operated, cannot guarantee an organization's objectives will be met. This is because of inherent limitations in all internal control systems.

Rebate: Abatement or refund which represents the return of all or part of a payment.

Reclassification: Redesignation of current year's income or expenditure items previously posted to one account and later determined to be more properly charged to a different account.

Refund: (*Noun*) An amount paid back or credit allowed on account of an over collection. (See Rebate.) (*Verb*) To pay back or allow credit for an amount because of an over collection or because of the return of an object sold. (*Verb*) To provide for the payment of an obligation through cash or credit secured by a new obligation.

Registered warrant: A warrant that is registered for future payment on account of a present lack of funds and that is to be paid with interest in the order of its registration number.

Registers: A listing of transactions of like kind that may be totaled and summarized for convenience in posting; e.g., payroll registers, warrant registers, and attendance registers.

Reimbursement: (1) Repayments of amounts remitted on behalf of another party. (2) Interfund transactions that constitute reimbursements to a fund for expenditures or expenses initially made from it but that properly apply to another fund (e.g., an expenditure properly chargeable to a special revenue fund is initially made from the general fund, and is subsequently reimbursed). These transactions are recorded as expenditures or expenses (as appropriate) in the reimbursing fund and as reductions of expenditures or expenses in the fund reimbursed. (See also Refund.)

Replacement cost: The amount of cash or other consideration that would be required today to obtain the same asset or its equivalent.

Requisition: A written demand or request, usually from one department to the purchasing officer or to another department, for specified articles or services.

Reserve: An amount set aside to provide for estimated future expenditures or losses, for working capital, or for other specified purposes.

Reserve for Encumbrances: The segregation of a portion of a fund balance to provide for unliquidated encumbrances. Separate accounts may be maintained for current and prior year encumbrances.

Resources: All assets owned including land, buildings, cash, estimated income not realized, and, in certain funds, bonds authorized but unissued.

Restricted accounts: Cash or other assets which are limited as to use or disposition by their source. Their identity is therefore maintained and their expenditure or use is also recorded separately.

Retained Earnings: The accumulated earnings of a proprietary fund that are not reserved.

Revenue: Increase in net assets from other than expense or expenditure refunds or other financing sources (e.g., long-term debt proceeds, residual equity, and operating transfers, and capital contributions). (See nonrevenue receipts.)

Revenue Bond Construction Fund: The fund designated to account for receipts and disbursements of the proceeds from the sale of community college revenue bonds for the acquisition or construction of authorized auxiliary or supplementary facilities.

Revenue Bond Interest and Redemption Fund: The fund designated to pay current interest and principle on bonds issued from receipts recorded in the Revenue Bond Project Fund.

Revenue Bond Project Fund: The fund designated to receive revenues from operation and disburse moneys for operation and maintenance of auxiliary or supplementary facilities for individual or group accommodation acquired or constructed from authorized community college revenue bonds.

Revenue bonds: Bonds whose principal and interest are payable exclusively from earnings of the funded facilities operation.

Revolving Cash Fund: A stated amount of money authorized by the district governing board to be used primarily for emergency or small sundry disbursements. The fund is reimbursed periodically through properly documented expenditures, which are summarized and charged to proper account classifications.

Sales and use tax: A tax imposed upon the sale of goods and services. The use tax is paid in lieu of the sales tax on goods purchased outside the state, but intended for use in the state.

Schedules: Explanatory or supplementary statements that accompany the balance sheet or other financial statements.

Scholarship and Loan Fund: The fund designated to account for moneys received and disbursed for scholarships, grants, and loans to students.

Secured roll: Assessed value of real property, such as land, buildings, secured personal property, or anything permanently attached to land as determined by each county assessor plus the value of the property of public utilities as determined by the State Board of Equalization.

Securities: Bonds, notes, mortgages, or other forms of negotiable or nonnegotiable instruments.

Self-Insurance Fund: An Internal Service Fund designated to account for income and expenditures of self-insurance programs.

Separation of Duties: An internal control practice in that no one person has complete control over any financial transaction. Each person's work should routinely serve as a complementary check on another's work.

Serial annuity bonds: Consecutively numbered or otherwise identified notes or other evidence of obligation in which the annual payment of principal and interest combined are approximately the same each year.

Serial bonds: Consecutively numbered or otherwise identified notes or other evidences of obligation redeemable by installment, each of which is to be paid out of income of the year in which it matures.

Shared revenue: Revenue collected by one governmental unit but shared, usually in proportion to the amount collected, with another unit of government or class of governments.

Short-Term Debt: Debt with a maturity of one year or less after the date of issuance. Short term debt usually includes variable-rate debt, bond anticipation notes, tax revenue anticipation notes, and revenue anticipation notes.

Site: Land which has been acquired or is in the process of being acquired.

Source document: Any voucher or other document that supports an entry in the accounting records.

Special Populations: Used to identify individuals with the same or similar characteristics. Commonly used in connection with categorical funding sources to identify eligible recipients. More specific information about certain categories of special populations may be obtained with the assistance of college staff working in those program areas.

Special Revenue Funds: A category of funds used to account for proceeds of specific legally restricted revenue for and generated from activities not directly related to the educational program of the college.

Specifications: Those particular qualities required of products or services.

Statements: Formal written presentations setting forth financial information. The term includes exhibits, schedules, and written reports.

Stipend: For career staff, a regular or fixed payment made to an individual in recognition of added responsibility.

Stores: (1) A system that enables supplies to be purchased in large quantities and charged to an asset account. The supplies are charged to the department when distributed. (2) The stockpiling of large amounts of supplies usually in a warehouse for future use. (3) Large quantities of supplies in storage.

Student Body Fund: A fund to control the receipts and disbursements for student association activities.

Student Financial Aid Fund: The fund designated to account for the deposit and payment of student financial aid including grants and loans or other moneys intended for similar purposes and excluding administrative costs.

Sub-recipient: A non-federal entity that expends Federal awards received from a pass-through entity to carry out a Federal program, but does not include an individual that is a beneficiary of the program. A sub-recipient may also be a recipient of other Federal awards directly from a Federal awarding agency. Guidance on distinguishing between a sub-recipient and a vendor is provided in subpart B – Audits .210 (OMB Circular A-133).

Subsidiary account: A related account that supports in detail the debt and credit summaries recorded in a controlling account.

Subsidiary ledger: A group of subsidiary accounts, the sum of the balances of which equal the balance of the related controlling account.

Subvention: A grant or provision of assistance or financial support, usually from one governmental unit to a subordinate jurisdiction.

Summary: Consolidation of like items for accounting purposes.

Supervisor: For the purpose of *Education Code* Section 84362 (the Fifty Percent Law), "Supervisor" means any employee having authority, on behalf of the district, to hire, transfer, suspend, lay off, recall, promote, discharge, assign, reward, discipline other employees, adjust their grievances, or effectively recommend such action, if the exercise of such authority is not of a merely routine or clerical nature.

Supplanting: To use one type of funds to provide goods or services previously paid for with another type of funds. Generally, this practice is prohibited when State or Federal funds are used to replace local funds.

Supply: A material item of an expendable nature that is consumed, wears out, or deteriorates in use; or one that loses its identity through fabrication or incorporation into a different or more complex unit or substance.

Surety bond: A written promise to pay damages or to indemnify against losses caused by the party or parties named in the document through nonperformance or through defalcation. For example, a surety bond might be required of a contractor or an official who handles cash or securities.

Suspense Account: An account to which postings are made temporarily pending determination of the proper account to be charged or credited.

Taxes: Compulsory charges levied within its boundaries by a governmental unit against the income or property of persons, natural or corporate, to finance services performed for the common benefit.

Taxes Receivable: An asset account representing the collected portion of taxes not yet apportioned to an entity at the close of the fiscal year.

Tax Revenue Anticipation Notes (TRAN): Instruments issued to secure short-term moneys borrowed in expectation of collection of taxes.

Tax liens: Claims by governmental units upon properties for which taxes levied remain unpaid.

Tax rate: The amount of tax stated in terms of a unit of the tax base; for example, 25 mills per dollar of assessed valuation of taxable property.

Tax rate limit: The maximum rate of tax that a governmental unit may levy.

Tax redemption: Proceeds from the sale of tax-delinquent property.

Tax relief subventions: Amounts received to compensate community colleges for revenues lost due to tax exemptions, such as for business inventory or owner occupied property.

Tax roll: The list showing the amount of taxes levied against each taxpayer or property.

Term bonds: Bonds of the same issue maturing at specified times.

Trade discount: A reduction of the list price usually expressed as a percent and related to volume of business transacted (not to be confused with cash discount).

Trial Balance: A list of the balances of the accounts in a ledger kept by double entry with the debit and credit balances shown in separate columns. If the totals of the debit and credit columns are equal or if their net balance agrees with a controlling account, the ledgers from which the figures are taken are said to be "in balance."

Trust Fund: A fund consisting of resources received and held by an entity as trustee to be expended or invested in accordance with the conditions of the trust.

Tuition: An amount charged to students for instructional services provided to students.

Unencumbered balance: That portion of an appropriation or allotment not yet expended or obligated.

Unit cost: The total expenditure for a product, program, or service divided by the total quantity obtained or some other quantitative measure; e.g., total expenditure divided by number of students equals cost per student.

Unrealized income: Estimated income less income received to date; also, the estimated income for the remainder of the fiscal year.

Unsecured roll: Assessed value of personal property other than secured property.

Useful life: The period of time that an asset is of physical useful value. It is established primarily for depreciation and insurance purposes.

Wire Transfer: This is an electronic transfer of funds from the district's bank to the bank account of the vendor. Funds being wired can be US Dollars or foreign currency to either US Bank or Foreign Bank. With a wire transfer nothing is mailed from Accounts Payable.

Variable costs: Those costs that fluctuate directly with enrollment or volume of business, as opposed to fixed cost.

Voucher: A written document that evidences the propriety of transactions and usually indicates the accounts in which they are to be recorded.

Voucher warrant: A form embodying a warrant and voucher in one document.

Warrant: A written order drawn by the governing board or its authorized officer(s) or employee(s) and allowed by the county auditor, directing the county treasurer to pay a specified amount to a designated payee. A warrant may or may not be payable on demand and may or may not be negotiable.

Warrants payable: The face amount of warrants outstanding and unpaid.

Withholding: Money deducted from an amount payable to an employee or a business (e.g., Federal and State income taxes withheld from employee payroll checks and by contract agreement the amount retained until final inspection and acceptance on construction projects).

Work in Process (WIP): An asset representing the value of partially completed work. (See also Construction in Progress)

Work Load Measure Reduction: Utilized to quantify the reduction in FTES required when corresponding reductions in revenues have been imposed.

Work order: A written authorization for the performance of a particular job containing a description of the nature and location of the job and specifications for the work to be performed. Such authorizations are usually assigned job numbers and provision is made for accumulating and reporting labor, material, and other costs.

Appendix B

Common Categorical and Restricted Programs

GENERAL PROGRAMS

Federal

Career and Technical Education Act (CTEA)
Child Development
College Work Study
Foster Care/Parent
Fund for Improvement of Post-Secondary Education (FIPSE)
Higher Education Act
Temporary Assistance for Needy Families (TANF)
TRIO - Student Support
TRIO - Upward Bound
Vocational Rehabilitation
Title 2, Parts A and B
Title 3, Parts A and B
Workability 2 and 3
Workforce Investment Act (WIA)

State

Basic Skills
CalWORKs
CARE
Childcare Permissive Tax Bailout
Child Nutrition Program
Disabled Students Programs and Services (DSPS)
Economic Development
Extended Opportunity Programs and Services (EOPS), Parts A and B
Faculty and Staff Diversity
Instructional Equipment
Instructional Improvement Grant
Lottery - Proposition 20
Matriculation
Part-Time Faculty Health
Part-Time Faculty Office Hours
Staff Development
Staff Diversity
Temporary Assistance for Needy Families (TANF)

CAPITAL OUTLAY PROGRAMS

State

Construction Act
Hazardous Substances
Scheduled Maintenance and Special Repairs (SMSR)
Telecommunications and Technology Information Programs (T-TIP)

STUDENT FINANCIAL AID

Federal

Pell Grants
Supplemental Educational Opportunity Grant (SEOG)
Direct Student Loan (DSL)
Nursing Loan (NL)
Bureau of Indian Affairs (BIA)

State

Board Financial Assistance Program (BFAP) Administrative Allowance
Cal Grants B and C
Direct Aid to Students (loans and grants, excluding work-study

Catalog of Federal Domestic Assistance website:
http://www.gsa.gov/fdac/queryfdac.htm

Appendix C

Accounting and Legal Advisories and Opinions

Legal Advisories and Legal Opinions may be found on the California Community Colleges Chancellor's Office website:

http://californiacommunitycolleges.cccco.edu/ChancellorsOffice/Divisions/LegalAffairs.aspx

http://extranet.cccco.edu/Divisions/FinanceFacilities/FiscalServicesUnit/FiscalStandards/AccountingAdvisories.aspx

The following advisories are included in the Appendix:

• Legal Opinion 12-02	Associated Student Organization
• Legal Opinion 10-01	Student Fee Handbook
• Accounting Advisories 05-05	Monitoring and Assessment of Fiscal Condition
• Legal Advisory 04-01.5	Instructional Service Agreements
• Accounting Advisory 2001-01	Implementation of GASB 34/35
	Raised Threshold for Inventory of Capital Assets

These advisories are not all inclusive. The Chancellor's Office websites noted above should be reviewed periodically for new information and advisories.

STATE OF CALIFORNIA

JACK SCOTT, CHANCELLOR

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Date: March 27, 2012

To: Linda Michalowski
Vice Chancellor, Student Services

From: Steve Bruckman
Executive Vice Chancellor of Operations and General Counsel

Subject: Associated Student Organization
Legal Opinion 12-02

Issue

You have asked a series of questions about the use of student association funds for the purpose of advocating for, or assisting in, the development and approval of ballot measures. Some of the questions are relatively easy to answer, but others are quite complex and are highly dependent on specific circumstances. While this opinion can be used as a guide, districts should consult local counsel to ensure compliance with all laws and regulations.

Introduction

Education Code section 7054 provides:

> No school district or community college district funds, services, supplies, or equipment shall be used for the purpose of urging the support or defeat of any ballot measure or candidate, including, but not limited to, any candidate for election to the governing board of the district.

Because of the clarity of this statute, it would be prudent for districts and student associations to interpret the law strictly and conclude that where uncertain, the appropriate course is to avoid using student association funds for political activities. For purposes of this opinion, reference to "funds" includes services, supplies, or equipment. http://www.cccco.edu/Portals/4/Legal/opinions/attachments/10-01.pdf. (This opinion does not address student representation fees collected pursuant to Education Code section 76060.5. Use of student representation fees is addressed in the Student Fee handbook.)

Questions

1. Can Associated Student Organization (ASO) funds be used to support campaigns to pass or defeat an initiative that has qualified and been placed on a ballot?

No, this is clearly prohibited by Education Code section 7054.

2. Does this prohibition apply only to funds provided directly by the district or does it apply to all ASO funds, including funds raised through the sale of student ID cards or other fundraising, such as bake sales or flea markets?

Education Code section 76063 does not distinguish between funds that come from the district general fund and other sources. Education Code section 76063 provides that funds of any student body organization shall be deposited as described in that section. It then goes on to provide that funds shall be expended subject to procedures established by the student body organization, but in all cases expenditures must be approved by an employee designated by the governing board as well as a certificated advisor and a representative of the student body organization.

As described above, all expenditures must be approved through the same process involving significant district involvement. This would suggest that all funds are to some extent controlled by the district and would therefore be subject to the restriction imposed by Education Code section 7054. Therefore, no ASO funds can be used to advocate for or against ballot measures.

3. Can ASO funds be used to support campaigns to qualify an initiative for the ballot? Specifically, can they be used for 1) donations to initiative qualification campaigns; 2) producing or purchasing flyers or other materials to promote a qualification campaign; and 3) paying signature-gatherers?

ASO funds can be used for general advocacy; for example, to transport students to the March in March. On the other hand, as discussed above, ASO funds cannot be used to support a ballot measure. This raises the question of precisely when an issue of interest on which advocacy is allowed becomes a ballot measure for which advocacy is prohibited.

Under Government Code section 82043(a):

> "Measure" means any constitutional amendment or other proposition which is submitted to a popular vote at an election by action of a legislative body, or which is submitted or is intended to be submitted to a popular vote at an election by initiative, referendum or recall procedure whether or not it qualifies for the ballot.

The Fair Political Practices Commission has found that:

> Under the Political Reform Act, a proposal can become a measure in two different ways. First, "measure" includes any proposition "which is submitted or is intended to be submitted to a popular vote at an election by initiative, referendum or recall procedure whether or not it qualifies for the ballot. This definition includes not only each initiative, referendum or recall that is actually submitted to the voters, but also applies to each such proposal that is intended to be submitted to a popular vote whether or not it qualifies for the ballot. Accordingly, an initiative, referendum or recall becomes a measure when the proponents begin to circulate signature petitions to qualify the measure for the ballot." (*In re Fontana* (1976) 2 FPPC Ops. 25.)

Thus, student associations may use their funds to advocate up to the point the proponents of the measure begin to circulate signature petitions. The question posed above is whether ASO funds can be used in "qualification campaigns." Clearly, ASO funds cannot be used to pay signature gatherers. Conceivably, there could be elements of a "qualification campaign" that precede circulation of petitions and ASO funds could be used. However, this is a very gray area and the ASO may not necessarily know exactly when the proposal becomes a "measure." To avoid potential violation of Education Code section 7054, it is advisable that ASO funds cease being used for some definable period prior to the time when petitions are actually being circulated. ASO's should work closely with their advisors and may need to consult legal counsel, depending on the specific circumstances involved.

4. Can an ASO take a position on a ballot initiative?

Yes, the ASO can take a position and adopt a resolution in support or against, but the ASO cannot use public funds to disseminate the resolution other than through the commonly used procedures of publication of minutes.

5. Can ASO members actively support campaigns to pass or defeat an initiative without the direct or indirect expenditure of district funds?

Yes, there are no limitations on ASO members expressing their opinions as individuals or as members of the ASO as long as no district funds are used.

6. Can district funds be used to present information about a ballot measure? What distinguishes sharing information from promoting a position?

District employees and ASO members are permitted to provide information on an initiative or ballot measure. Education Code section 7054 requires that "information provided constitutes a fair and impartial presentation of relevant facts." For example, if representing the ASO at a public meeting regarding a ballot measure, an ASO representative can offer factual information describing the impacts of the ballot measure. Similarly, an ASO could produce an informational flyer describing the impacts of the ballot measure. Whether information is impartial or advocacy may be difficult to discern. Districts typically are very cautious in this area and work closely with their legal counsel and public information officers to craft messages that are permissible. Student associations should be equally cautious.

As mentioned at the outset, this topic can be very complex, and districts are advised to consult with local counsel on specific cases.

SB/fr/ll

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March 9, 2010

TO: Board of Governors
Superintendents and Presidents
Presidents, Boards of Trustees
Consultation Council
Chief Business Officials
Chief Instructional Officers
Chief Student Services Officers
Admissions Officers and Registrars
Financial Aid Officers
Community College Attorneys
Other Interested Parties

FROM: **Steven Bruckman**
Executive Vice Chancellor and General Counsel

SUBJECT: Student Fee Handbook
Legal Opinion 10-01

Synopsis: In 2006 the Legal Affairs Division of the Chancellor's Office published the Student Fee Handbook. We have now revised and updated the Handbook to reflect the current status of the law on student fees. The new version of the Fee Handbook is attached and is also available through a direct link on the Legal Affairs portion of the Chancellor's Office website at http://www.cccco.edu/divisions/legal/StudentFeeHandbook.

The 2010 Student Fee Handbook reflects changes in student fees resulting from actions of the Legislature and the Board of Governors as well as pertinent formal or informal legal opinions issued from this office through January 1, 2010.

Because this material is lengthy and complex, we have used underlining to indicate changes in the law or our interpretation of the law. Material in boldface is pre-existing information, which we believe continues to deserve particular emphasis.

Action/Date Requested: Districts should ensure that all their fees are authorized and appropriate in amount and that students are properly informed of their rights and responsibilities regarding district fees.

cc: Chancellor's Cabinet

STATE OF CALIFORNIA MARSHALL DRUMMOND, CHANCELLOR

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Memorandum

FS 05-05
By Email Only

October 25, 2005

TO: Chief Executive Officers
Chief Business Officers

FROM: Frederick E. Harris, Assistant Vice Chancellor
College Finance & Facilities Planning

SUBJECT: Accounting Advisory: Monitoring and Assessment of Fiscal Condition

I. Background:

Pursuant to Education Code Section 84040, the Board of Governors is required to adopt criteria and standards for the periodic assessment of the fiscal condition of California community college districts. In accordance with this requirement, the System Office has established standards for sound fiscal management and a process to monitor and evaluate the financial health of California's community college districts. The purpose of these standards is to identify districts that may benefit from preventative management assistance and those that may require fiscal crisis intervention to prevent emergency loans. These standards are intended to be progressive, with the focus on prevention and assistance at the initial level and more direct intervention at the highest level. These standards are based on the principles of sound fiscal management that are contained in California Code of Regulations (CCR) Section 58311.

The monitoring and assessment process outlined in this accounting advisory is intended to provide for early detection of districts that are experiencing fiscal difficulties. Early detection will allow the district and System Office an opportunity to take proactive/preventative steps to stabilize and address the financial condition of identified districts. This process will utilize various information sources to assess the financial condition of all community college districts and will allow the System Office to provide technical and administrative assistance to bring about improvement in a district's financial condition. If early and preventative intervention fails due to the timing or degree of fiscal condition, direct intervention will be assigned.

II. Monitoring and Assessment of Financial Condition

Monitoring and periodic assessment of all districts' financial condition will be performed to determine whether a district requires preventative management assistance or fiscal crisis intervention. This assessment will utilize a wide variety of information to provide an overview of a district's financial condition. The information to be used to perform the assessment will include the following:

- Quarterly Financial Status Reports (CCFS-311Q)
- Annual Financial and Budget Reports (CCFS-311)
- Annual District Audit Reports
- Apportionment Attendance Reports (CCFS-320)
- District Response to Inquires (telephone, written correspondence, site visits, etc.)
- Other available information (i.e., debt reports, Fiscal Data Abstract, etc.)

The overall assessment of a district's financial condition will include, but not be limited to, the following criteria:

a) Primary Criteria: General Fund Analysis that will include a review of the current, historical and projected fund balance. The main criteria for assessment will be the percentage of unrestricted general fund balance to all expenditures and other outgo of unrestricted general fund. For purposes of this assessment, all unrestricted expenditures and other outgo will include all uses of unrestricted general funds under expenditure object codes 1000 thru 7000.

   The minimum prudent unrestricted general fund balance is 5 percent. This minimum prudent level is considered necessary to ease cash flow problems, to deal with unexpected cost increases, and other fiscal uncertainties. If a district falls below this minimum prudent level, further review will be performed to determine if any fiscal problems exist. Such review shall take into account identified one-time revenues and expenditures as designated by the affected district.

b) Secondary Criteria. Other factors that have an impact upon a district's overall financial stability must be considered in evaluating whether or not a district has an adequate unrestricted general fund balance, including:

   1. Analysis of spending patterns will include a review of the current, historical and projected revenues and expenditures. Attention will be given to districts that have a pattern of deficit spending in the current year, and greater scrutiny will be made if there is a history of deficit spending.

   2. Full-Time Equivalent Students (FTES) review will include looking at the FTES patterns in relation to statewide patterns and the potential impact upon revenue. Attention will be given to districts with unusual material fluctuations to the FTES. Districts receiving stability revenue will be further evaluated.

   3. Staffing expenditure (salaries and benefits) increases that are expected to exceed projected revenue increases.

   4. Other factors will be reviewed for pertinent information that could have an impact upon a district's financial condition. Attention will be given to any potential problems such as: a "going concern" audit finding, material internal control audit findings, pending legal actions, late filing of annual audit or financial & enrollment reports and other fiscal or administrative problems that are identified.

Districts are encouraged to regularly complete the *Sound Fiscal Management Self-Assessment Checklist* with their Board and executive staff. This checklist can provide early detection indicators of potential district fiscal concerns and provide districts with the opportunity to identify and address problems at the earliest possible time.

III. **Follow-up actions**

Based upon the overall assessment and severity of problems identified, the System Office will take follow-up actions to investigate and validate whether or not a district requires periodic monitoring, management assistance and/or fiscal crisis intervention. The specific follow-up actions taken by the System Office will vary depending upon the overall assessment of the district's condition and the severity of the possible fiscal problems. After discussion with the district, the System Office will make one of the following determinations:

1. No further follow-up is necessary.

Based on further analysis and evaluation of information gathered after the assessment of the primary/secondary criteria, a determination has been made by the System Office that no further follow-up is necessary by the district.

2. Periodic monitoring is necessary.

Districts in this category will be required to do the following:

- Complete the *Sound Fiscal Management Self-Assessment Checklist* and submit to the System Office with evidence that the district's governing board has been appropriately informed.
- Update and submit their Quarterly Financial Status Report, CCFS 311Q (new version to be issued by end of 2005) to reflect the district's current fiscal status.
- Develop and submit to the System Office a written action plan developed by the district that satisfactorily addresses the identified fiscal concerns.
- Chief Business Official (CBO) and/or other appropriate key staff will maintain regular communication with the System Office regarding recovery progress.

3. The district requires management assistance and will be monitored more closely.

Districts in this category have one or more deficiencies that require outside assistance and require closer monitoring by the System Office through the following actions:

- Complete the *Sound Fiscal Management Self-Assessment Checklist* and submit to the System Office with evidence that the district's governing board has been appropriately informed.
- Submit a more comprehensive CCFS 311Q (newer version to be issued by end of 2005) monthly to reflect the district's fiscal status.

- Submit to the System Office a management assistance plan that addresses the identified concerns developed with the aid of the Fiscal Crisis and Management Assistance Team (FCMAT) and/or other specialized external assistance.
- District CBO and CEO as needed will participate in a quarterly review on the district's fiscal condition and recovery.
- Depending on the severity of the problem, the district may be required to submit a detailed recovery plan for achieving fiscal stability and an education plan demonstrating the impact of the fiscal plan on the district's education program. This recovery plan needs the district's governing board approval.

4. The district requires immediate fiscal crisis intervention.

The district's recovery plan for achieving fiscal stability and the educational plan demonstrating the impact of the fiscal plan on the district's educational program have been found to be deficient, the district has substantially failed to implement the plans OR the plans have not been completed in a timely manner. Intervention is determined to be necessary because a district's financial data indicate a high probability that, if trends continue unabated, the district will need an emergency apportionment within three years or that the district is not in compliance with the principles of sound fiscal management specified in Section 58311. Therefore, the Chancellor, in accordance with California Code of Regulations Title 5 Sections 58312 et seq., has the authority to take any of the following actions at district expense:

- Conduct a comprehensive management review of the district and its educational programs and an audit of the financial condition of the district.
- Direct the district to amend and readopt the fiscal and educational plans prepared pursuant to CCR T5 Section 58310 based on the findings of the comprehensive audits.
- Direct outside fiscal crisis intervention assistance from FCMAT, other specialized external assistance and/or through the appointment of a Special Trustee to help address the fiscal concerns and to assist with the district's recovery.
- Assign a Special Trustee to assume management and fiscal control of the district to the extent deemed necessary in order to achieve fiscal stability or solvency and also implement the principles of sound fiscal management.

California Community Colleges

Sound Fiscal Management
Self-Assessment Checklist

1. **Deficit Spending -** Is this area acceptable? **Yes / No**
   - Is the district spending within their revenue budget in the current year?
   - Has the district controlled deficit spending over multiple years?
   - Is deficit spending addressed by fund balance, ongoing revenue increases, or expenditure reductions?
   - Are district revenue estimates based upon past history?
   - Does the district automatically build in growth revenue estimates?

2. **Fund Balance** – Is this area acceptable? **Yes / No**
   - Is the district's fund balance stable or consistently increasing?
   - Is the fund balance increasing due to on-going revenue increases and/or expenditure reductions?

3. **Enrollment -** Is this area acceptable? **Yes / No**
   - Has the district's enrollment been increasing or stable for multiple years?
   - Are the district's enrollment projections updated at least semiannually?
   - Are staffing adjustments consistent with the enrollment trends?
   - Does the district analyze enrollment and full time equivalent students (FTES) data?
   - Does the district track historical data to establish future trends between P-1 and annual for projection purposes?
   - Has the district avoided stabilization funding?

4. **Unrestricted General Fund Balance** – Is this area acceptable? **Yes / No**
   - Is the district's unrestricted general fund balance consistently maintained at or above the recommended minimum prudent level (5% of the total unrestricted general fund expenditures)?
   - Is the district's unrestricted fund balance maintained throughout the year?

5. **Cash Flow Borrowing -** Is this area acceptable? **Yes / No**
   - Can the district manage its cash flow without interfund borrowing?
   - Is the district repaying TRANS and/or borrowed funds within the required statutory period?

6. **Bargaining Agreements -** Is this area acceptable? **Yes / No**
   - Has the district settled bargaining agreements within new revenue sources during the past three years?
   - Did the district conduct a pre-settlement analysis identifying an ongoing revenue source to support the agreement?
   - Did the district correctly identify the related costs?
   - Did the district address budget reductions necessary to sustain the total compensation increase?

7. **Unrestricted General Fund Staffing -** Is this area acceptable? **Yes / No**
   - Is the district ensuring it is not using one-time funds to pay for permanent staff or other ongoing expenses?
   - Is the percentage of district general fund budget allocated to salaries and benefits at or less than the statewide average (i.e. the statewide average for 2003-04 is 85%)?

8. **Internal Controls** - Is this area acceptable? **Yes / No**
   - Does the district have adequate internal controls to insure the integrity of the general ledger?
   - Does the district have adequate internal controls to safeguard the district's assets?

9. **Management Information Systems** - Is this area acceptable? **Yes / No**
   - Is the district data accurate and timely?
   - Are the county and state reports filed in a timely manner?
   - Are key fiscal reports readily available and understandable?

10. **Position Control** – Is this area acceptable? **Yes / No**
    - Is position control integrated with payroll?
    - Does the district control unauthorized hiring?
    - Does the district have controls over part-time academic staff hiring?

11. **Budget Monitoring** - Is this area acceptable? **Yes / No**
    - Is there sufficient consideration to the budget, related to long-term bargaining agreements?
    - Are budget revisions completed in a timely manner?
    - Does the district openly discuss the impact of budget revisions at the board level?
    - Are budget revisions made or confirmed by the board in a timely manner after the collective bargaining agreements are ratified?
    - Has the district's long-term debt decreased from the prior fiscal year?
    - Has the district identified the repayment sources for the long-term debt?
    - Does the district compile annualized revenue and expenditure projections throughout the year?

12. **Retiree Health Benefits** - Is this area acceptable? **Yes / No**
    - Has the district completed an actuarial calculation to determine the unfunded liability?
    - Does the district have a plan for addressing the retiree benefits liabilities?

13. **Leadership/Stability** - Is this area acceptable? **Yes / No**
    - Has the district experienced recent turnover in its management team (including the Chief Executive Officer, Chief Business Officer, and Board of Trustees)?

14. **District Liability** – Is this area acceptable? **Yes / No**
    - Has the district performed the proper legal analysis regarding potential lawsuits that may require the district to maintain increased reserve levels?
    - Has the district set up contingent liabilities for anticipated settlements, legal fees, etc?

15. **Reporting** – Is this area acceptable? **Yes / No**
    - Has the district filed the annual audit report with the System Office on a timely basis?
    - Has the district taken appropriate actions to address material findings cited in their annual audit report?
    - Has the district met the requirements of the 50 percent law?
    - Have the Quarterly Financial Status Reports (CCFS-311Q), Annual Financial and Budget Reports (CCFS-311), and Apportionment Attendance Reports (CCFS-320) been submitted to the System Office on or before the stated deadlines?

STATE OF CALIFORNIA

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March 18, 2004

To: Mark Drummond, Chancellor
California Community Colleges

From: Steve Bruckman, Interim General Counsel

Subject: Instructional Service Agreements
Legal Advisory 04-01.5

It has been brought to our attention that there may be districts failing to comply with state law and regulations regarding instructional contracts. You have asked me to advise you of the potential problems and recommend methods to avoid them.

A number of community college districts have arrangements with public agencies and private organizations known as "instructional service agreements" (ISA). In ISA's, an outside organization establishes a partnership with a community college to obtain college-level training for its employees or members. Many of these programs are in the public safety area, but there are other areas as well, generally where the cost of instruction is high or it is difficult to obtain qualified instructors. Student attendance in classes offered under these agreements is eligible for apportionment provided all Education Code and Title 5 requirements are satisfied. ISA's are different from contract education, in which a contractor pays the full cost of instruction in a closed class setting and the district does not receive apportionment. ISA's are often mutually beneficial because the instructional costs are shared and students can receive college credit.

However, because ISA requirements are somewhat complicated, apportionment may be claimed inappropriately. Furthermore, because ISA's often operate outside of the district's usual processes, abuse can occur. There are two general types of abuse that may be alleged. First, there may be charges of "double dipping" when the organization is a public agency because apportionment and agency training funds are applied to the same instruction. Second, apportionment funds received by the district may be redirected not to the training partner as an appropriate offset to instructional costs, but to a third party that wrongfully profits from the program. It has come to our attention that the Orange County Register may have uncovered some instances of abuse and is planning to print a story that may increase the scrutiny applied to all ISA programs.

In 1996, the Legislature and the Board of Governors adopted statutes and regulations designed to provide additional safeguards against abuse of ISA's. At that time, the Chancellor's office developed a "Contract Guide for Instructional Service Agreements between College Districts and

Public Agencies", a copy of which is attached. The Contract Guide consists of sixteen items that must be checked off to ensure compliance with laws and regulations. Although the Contract Guide is focused on public agencies, most of the requirements apply equally to private training partners. Meeting these requirements is a labor-intensive activity, and districts may find that the work involved is not justified by the amount of apportionment received.

A few of the requirements merit particular attention. It is essential that there be a formal written agreement between the district and the outside organization. The checklist provides very specific elements that must be included in the ISA. For example, the instruction must be under the immediate supervision and control of an instructor who meets minimum qualifications, the courses must be of a similar quality to courses taught on campus, and the classes must be open to the public. If the instructor is not a paid district employee, the district must have a separate agreement with the instructor.

The ISA must also state that neither the district nor the outside organization receives full funding for the instruction from the State or other sources. The intent of the ISA is that the District and the outside organization combine their resources to provide the instruction that would not have been possible but for the combination of resources. The state law does not say how much of the funding must come from either party, but it is reasonable to take the position that it must be more than a trivial amount. One district has adopted a policy that neither party can contribute more than 80% of the cost of instruction. It is not unusual for ISA's to provide that a portion of the apportionment funding be directed to the outside organization in recognition of direct instructional costs incurred by that organization. This is a legitimate practice if all of the sixteen requirements are met. It also makes sense because the outside organization may have contributed significantly to the total program cost.

For these programs to be successful, districts must devote considerable staff time to administration and oversight. The outside organization likely is very unfamiliar with community college district procedures, and care must be taken to maintain compliance with the terms of the ISA. In addition to program oversight, the district's business office should participate. Ideally, districts will develop a standard ISA document to reduce the oversight burden and discourage constant negotiation over terms and conditions.

The current situation involving ISA's is not unlike the problems associated with advanced education for high school students last year. In both cases, serious abuses by a few districts cast a shadow over every district in the state. Districts that complied with the spirit of the law for advanced education may have failed to comply with some of the specific requirements of the program. This led to significant embarrassment for the system, return of apportionment funding for many districts and a lawsuit that has not yet been resolved.

It is important that administrators carefully evaluate current and potential ISA's to ensure that all of the legal requirements have been met. If you need any additional information or guidance, please let me know.

SB:sj

Legal Advisory 04-01.5

California Community Colleges
Chancellor's Office
Contract Guide for Instructional Service Agreements between
College Districts and Public Agencies

Community colleges may claim FTES and consequently, State funding for classes given through instructional service agreements/contracts provided Education Code and Title 5 requirements are met. The regulations are contained in Title 5 of the California Code of Regulations, Sections 51006, 53410, 55002, 55005, 55230-232, 55805.5, 58051(c) – (g), 58051.5, 58055, 58056, 58058(b), 58100-58106 and Education Code Section 78015.

This guide paraphrases applicable sections of Title 5 and applies only to classes conducted in a cooperative arrangement with public agencies. The following checklist should be used as a guide in the preparation of agreements or contracts:

1. ___The governing board of a community college district, prior to establishing a vocational or occupational training program, shall conduct a job market study of the labor market area, and determine whether or not the results justify the proposed vocational education program. Education Code Section 78015.

2. ___The college or district has a written agreement or contract with the contractor stating the responsibilities of each party and that the college or district is responsible for the educational program conducted on site.

3. ___The agreement/contract contains procedures, terms and conditions relating to 1) enrollment period; 2) student enrollment fees; 3) the number of class hours sufficient to meet the stated performance objectives; 4) supervision and evaluation of students; and 5) withdrawal of students prior to completion of a course or program.

4. ___Agreement/contract contains terms and conditions relating to cancellation and termination of the arrangement.

5. ___Instruction to be claimed for apportionment under the agreement/contract, is under the immediate supervision and control of an employee of the district (Title 5,Section 58058) who has met the minimum qualifications for instruction in vocational subject in a California community college.

6. ___Where the instructor is not a paid employee of the district, the college or district has a written agreement or contract with each instructor conducting instruction for which FTES are to be reported and stating that the college or district has the primary right to control and direct the instructional activities of the instructor.

   NOTE: The college or district must demonstrate control and direction through such actions as providing the instructor an orientation, instructor's manual, course outlines, curriculum materials, testing and grading procedures, and any other materials and services it would provide to its hourly instructors on campus.

7. ___The college or district lists minimum qualifications for instructors teaching these courses and that the qualifications are consistent with requirements in other similar courses given at the college or district.

8. ___The course must be held at facilities which are clearly identified as being open to the general public. (Title 5, Section 58051.5) Enrollment in the course must be open to any person who has

been admitted to the college and has met any applicable prerequisites. (Title 5, Sections 51006 and 58106) The district policy on open enrollment must be published in the college catalogue, schedule of classes, and any addenda to the schedule of classes, (Title 5, Section 51006), along with a description of the course and information about whether the course is offered for credit and is transferable. (Title 5, Section 55005)

9. ___Degree and certificate programs must have been approved by the State Chancellor's Office and courses that make up the programs must be part of the approved programs, or the college must have received delegated authority to separately approve those courses locally.

10. ___The courses of instruction are specified in the agreement, the outlines of record for such courses and are approved by the college's curriculum committee as meeting Title 5 course standards, and the courses have been approved by the district board of trustees.

11. ___Procedures used by the college to assure that faculty teaching different sections of the same course, teach in a manner consistent with the approved outline of record for that course are applied to courses and faculty covered under the agreement and students are held to a comparable level of rigor.

12. ___Records of student attendance and achievement will be maintained by the public agency. Records will be open for review at all times by officials of the college and submitted on a schedule developed by the community college district.

13. ___It is agreed that both contractor and community college district will insure that ancillary and support services are provided for the students (e.g. Counseling and Guidance, Placement Assistance).

14. ___The college district must certify that it does not receive full compensation for the direct education costs of the course from any public or private agency, individual or group.

15. ___The college district is responsible for obtaining certification verifying that the instructional activity to be conducted will not be fully funded by other sources.*

16. ___If the classes are to be located outside the boundaries of the district, the district must comply with the requirements of Title 5, Sections 55230-55232 concerning approval by adjoining high school or community college districts and use of non-district facilities.

**In accordance with AB 444 (Statutes of 1996, Chapter 637) effective 9/16/96, Title 5, Section 58051.5 was amended to include appropriate language to implement Education Code Section 84752.*

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ACCOUNTING ADVISORY NO. 2001-01
June 18, 2001

TO: District Chief Business Officers

FROM: Frederick E. Harris, Director
College Finance and Facilities Planning

SUBJECT: Implementation of GASB 34/35
Raised Threshold for Inventory of Capital Assets

Synopsis: The Governmental Accounting Standards Board has issued new financial reporting standards that apply to state and local governments and to public colleges and universities. In June of 1999 the Governmental Accounting Standards Board (GASB) issued Statement No. 34, "Basic Financial Statements — and Management's Discussion and Analysis — for State and Local Governments." This new statement makes significant changes in the format and focus of financial statements of state and local governments. In November of 1999, GASB issued Statement No. 35, "Basic Financial Statements — and Management's Discussion and Analysis — for Public Colleges and Universities, an Amendment of GASB Statement No. 34." Statement No. 35 permits public colleges and universities to adopt a reporting model based on the provisions of Statement No. 34 that apply to special-purpose governments engaged only in business-type activities (BTA), engaged only in governmental activities, or engaged in both governmental and business-type activities.

It appears that all or nearly all public colleges and universities nationwide have selected to implement the provisions of the BTA reporting model. Based on this and other factors discussed below, the consensus of district representatives and the Chancellor's Office is that the California Community Colleges will best benefit from and will therefore implement the BTA reporting model. To this end, the Chancellor's Office through consultation is examining the *Budget and Accounting Manual* (BAM) in order to bring it into compliance with the BTA reporting model and to maintain the integrity of the information provided by community college districts.

In a separate but related effort to update the accounting standards on capital equipment acquisitions, this Accounting Advisory also raises the minimum capitalization threshold for district property and equipment to $5,000. This change is discussed more fully under the Capital Assets heading on page 4.

BTA, Combined Governmental and BTA, or Governmental Reporting Model?

In a teleconference on May 17, 2001, the Fiscal Standards and Accountability Committee consulted with Joseph Blythe, Project Manager for GASB, and with community college leaders from two other states that had already begun implementation of GASB 35 using the BTA reporting model.

According to Joseph Blythe, the guidance contained in GASB Statements 34 and 35 is set up in such a way that there are absolutely no overriding criteria that are defined in the standards to guide an organization to any one of the specified reporting models. Each college and university system is free to choose whether to follow the governmental reporting model, the combined governmental and BTA reporting model, or the BTA reporting model. BTA is an option so long as nominal amounts of enrollment fees are collected. Based on information from Joseph Blythe and other teleconference participants, it appears that all or nearly all public colleges and universities nationwide will be implementing the BTA reporting model and it will be easier to display comparable data if we follow the college and university industry standards.

The Fiscal Standards and Accountability Committee's unanimous recommendation to the Chancellor's Office to adopt the BTA model was based on the following considerations:

- It appears that virtually all of the public colleges and universities in the country will use the BTA reporting model. This presentation will help differentiate us from cities, counties and local school districts; and it will improve comparability with colleges and universities nationwide.

- The new reports will be presented in a format similar to private sector reports, and are easier for outside entities to understand.

- The necessary implementation training for business and fiscal staff will be more readily available for colleges and universities that follow the BTA model.

<u>What Will Continue</u>

- Traditionally, the annual district audit includes fund-based financial statements and supplemental information required to fulfill reporting requirements of Generally Accepted Accounting Principles (GAAP) and outside entities. These statements, schedules and information are presented for the purposes of additional analyses and to ensure compliance with legal requirements. However, these items are not part of the basic financial statements under the BTA model. It is therefore anticipated that these items will become part of the supplemental information section of the annual district audit. As GASB 34/35 is implemented, the information included in the supplemental information section may change through consultation.

- A change in the fund structure will not be necessitated by the implementation of GASB 34/35.

- At this point, fund information included in the CCFS-311 (Annual Financial and Budget Report) and CCFS-311Q (Quarterly Financial Status Report) will continue. It is anticipated that the Fiscal Standards and Accountability Committee and other consultative groups will have the opportunity to review and provide input on the conversion from modified accrual to full accrual basis, and consideration of any necessary revisions to the BAM, CCFS-311, and CCFS-311Q as a result of the new financial reporting standards.

<u>What Will Change</u>

New District Financial Statements:

Management's Discussion and Analysis (MD&A)
[GASB 34, paragraph 8-11]

- Is required supplementary information (RSI);

- Precedes the basic financial statements;

- Provides an objective and easily readable analysis of the institution's financial activities based on currently known facts, decisions, and conditions;

- Discusses positive and negative aspects of the comparison with the prior year;

- May use charts, graphs, and tables to enhance understandability of the information.

Statement of Net Assets
[GASB 34, paragraphs 97-98]

- Uses classified format (current vs. noncurrent [long term] classifications);

- Requires separation of restricted assets (e.g., cash and cash equivalents restricted for repayment of debt);

- Three net asset categories: unrestricted; restricted (distinguishing between major categories of restrictions); and invested in capital assets, net of related debt;

- Can use net assets format (assets less liabilities equal net assets) or a balance sheet format (assets equal liabilities plus net assets), (the process for coming to consensus on our system's selection is not yet complete); and

- Does not display internal designations of unrestricted net assets on the face of the statement of net assets (but may disclose them in the notes to the financial statements). [GASB Statement 34, Paragraph 37]

Statement of Revenues, Expenses, and Changes in Net Assets
[GASB 34, paragraphs 100-101]

- Distinguishes between operating/nonoperating revenues and expenses;

- Considers state appropriations as nonoperating revenues;

- Has an optional natural or functional expense classification (the process for coming to consensus on our system's selection is not yet complete); and

- Provides for separate reporting of revenues from capital contributions, additions to the principal of permanent and term endowments, special and extraordinary items, and transfers.

Statement of Cash Flows
[GASB 34, paragraph 105 and GASB 9]

- Requires the direct method;

- Has four categories:
  - Operating
  - Noncapital financing (e.g., state appropriations and gifts);
  - Capital and related financing, and
  - Investing.

- Requires reconciliation of operating income (loss) to net cash flows from (used In) operating activities; and

- Requires that information concerning significant noncash activities be reported separately.

Capital Assets
[GASB 34, paragraphs 18-22]

Includes land, improvements to land, easements, buildings, building improvements, vehicles, machinery, equipment, works of art and historical treasures, infrastructure, and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period.

- Must be reported at historical cost or, if donated, at the estimated fair value at the time of acquisition;

- Are depreciated over their estimated useful life—except for—
  - Noncapitalized collections of works of art, historical treasures, and similar assets
  - Inexhaustible assets (e.g., land); and
  - Infrastructure assets reported using the modified approach.
- Include ancillary costs and capitalized interest;
- Use the same depreciation methods to calculate the depreciation amounts for facilities and administrative rate purposes as are used by the institution for its financial statements [OMB Circular A-21, paragraphs 12.b.(2); and
- Are recorded at net book value as of the date of implementation--
  - Prior periods restated, and
  - Net assets cumulatively adjusted.

Raised Capitalization Threshold (*Budget and Accounting Manual*)

Based on federal guidelines, the State of California has recently adopted a $5,000 capitalization threshold for capital assets (formerly called fixed assets). The Fiscal Standards and Accountability Committee unanimously recommended raising the threshold for community colleges to the same level. Districts retain authority to inventory assets at a lower level if there is local need to do so, but the $5,000 level is the uniform system level for capitalization and depreciation. The committee also unanimously recommended tying the capitalization threshold for community colleges to the federal guidelines.

In further support of this position, the committee noted that raising the threshold will usually eliminate about 80% of the inventory line items, while retaining about 80% of the total value of the inventory.

This Accounting Advisory supersedes the Budget and Accounting Manual, pages 2.47, 2.48, 4.64, 4.65, and 5.12 as it relates to inventory, capitalization, and depreciation.

Infrastructure Assets (i.e., long-lived capital assets)
[GASB 34, paragraphs 148-166]

- Must be implemented at the same time as GASB 35 for public institutions that report as BTA;
- Are long-lived capital assets that normally are stationary in nature and normally can be preserved for a significantly greater number of years than most capital assets, (e.g., roads, bridges, tunnels, drainage systems, water and sewer systems, lighting systems, etc.); and

- Parking lots and fencing may be treated as land improvements because they are typically adjacent to the buildings that they service and have a much shorter life than long-lived infrastructure assets as defined by GASB. Furthermore, these assets serve different functions than infrastructure assets and are considered part of the adjacent building. [Questions 25 and 46 of the GASB34/35 Implementation Guide address this issue.]

Note Disclosures about Capital Assets and Long-Term Liabilities [GASB 34, paragraphs 116-120]:

- Should provide detail in the notes to the financial statements about capital assets and long-term liabilities reported in the statement of net assets. The information disclosed should be divided into major classes of capital assets and long-term liabilities. Capital assets that are not being depreciated should be disclosed separately from those that are being depreciated; and

- Should provide disclosures about capital assets and long-term liabilities of discretely presented component units if deemed necessary for fair presentation.

IMPLEMENTATION ISSUES:

The effective date of implementation is based on total revenues as of the 1998-99 Fiscal Year:

Phase I:	**7-1-2001**	**Districts with total revenues ≥ $100,000,000**
Phase II:	**7-1-2002**	**Districts with total revenues ≥ $10,000,000 < $100,000,000**
Phase III:	**7-1-2003**	**Districts with total revenues ≤ $10,000,000**

Obtaining Fixed Asset Information:

Districts will need to restate the beginning fund balances during the year of implementation to properly present the ending net asset balance. This means that districts will need to establish the original cost basis (or fair market value at the time of donation, if donated), for land, building, furniture, equipment, etc. These capital assets will then need to be depreciated from the date purchased or placed into service through the end of the year prior to implementation.

Depreciation can be calculated using various generally accepted methods such as straight-line or an accelerated calculation. Assets can be depreciated on an individual basis or like items can be grouped and depreciated on a composite basis. GASB 34 also provides guidance for calculating depreciation.

In addition, please note that GASB 34 makes a distinction about which capital assets are infrastructure assets such as roads, bridges, water system, etc. Most districts will have few, if any, infrastructure assets. Capital assets, that are not infrastructure assets, must be capitalized and depreciated as of the date of implementation of GASB 34.

Converting Modified Accrual Accounting Basis to Full Accrual Accounting Basis:

Individual funds under the modified accrual basis of accounting will need to generate journal entries to convert the financial statements to the full accrual basis of accounting in order to complete the BTA model financial statements. An example of such entries would be:

- Reduce capital outlay expense for fixed assets purchased and to be capitalized under GASB 34
- Increase expenses by reporting depreciation expense on capital assets
- Reduce proceeds from long-term debt for new debt entered into during the fiscal year, such as capital leases, COPs, GO Bonds, etc.
- Record long-term debt as a liability on the Statement of Net Assets (Balance Sheet)
- Reduce long-term debt expense for principal payments on debt and apply this against the long-term debt reported on the Statement of Net Assets
- Record accounts receivable as outlined in GASB 33 – criteria for revenue recognition
- Record liabilities for obligations incurred during the reporting period but not paid within the standard 60 to 90 day period. Such obligations would include those covered under GASB 16 – Accounting for Compensated Absences and debt service interest.

In order to properly complete the financial statements under the BTA model, districts will need to restate their beginning fund and net asset balances for the year of implementation using the full accrual method.

Resources Available for Districts

The Fiscal Standards and Accountability Committee has named a subcommittee to coordinate the implementation activities and to arrange for training for district staff on all the aspects of implementing this nationwide change. The subcommittee is composed of district representatives from the first phase and second phase of implementation.

The Chancellor's Office will conduct workshops in the north and the south this calendar year. The Chancellor's Office will co-host a workshop at the Foothill-DeAnza district this

September, and one in the south at a later date. There will also be audit workshops conducted in the Spring of 2002.

The Chancellor's Office will issue further accounting advisories on various facets of the implementation process as the need arises.

OTHER RECOMMENDATIONS:

- Contact your auditors and discuss GASB 34/35 prior to implementation
- Attend workshops on the topic
- Prepare a GASB 34/35 implementation timeline
- Districts may want to begin drafting a sample MD&A to know what types of information should be included, methods to gather data, how to produce graphs, etc.
- Districts may want to go through a trial run prior to the beginning of their implementation year in order to prepare for the actual implementation

As the implementation date draws closer, and as Phase I districts begin to implement their plans, more and more information will become available. The Chancellor's Office is planning to issue sample financial statements in the revised Contracted District Audit Manual.

Contact: If you have any questions related to the financial statements and audit aspects of GASB 34/35 please contact Steve Nakamura at (916) 327-6818/E-mail snakamur@cccco.edu. For questions related to the Budget and Accounting Manual and the CCFS-311 please contact Patrick Ryan at (916) 327-6223/E-mail pryan@cccco.edu.

CC: District Superintendent/President
Thomas J. Nussbaum
Patrick J. Lenz
Steve Nakamura
Patrick Ryan
Debbie Copple

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STATE OF CALIFORNIA **BRICE W. HARRIS, CHANCELLOR**

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Memorandum

FS 13-03
Via E-mail Only

April 17, 2013

TO: Chief Business Officers

FROM: Frederick E. Harris, Assistant Vice Chancellor
College Finance and Facilities Planning

SUBJECT: **Accounting Advisory**: Proposition 30 Education Protection Account guidelines

Proposition 30, The Schools and Local Public Safety Protection Act of 2012 passed in November 2012. This proposition temporarily raises the sales and use tax by .25 cents for four years and raises the income tax rate for high income earners ($250,000 for individuals and $500,000 for couples) for seven years to provide continuing funding for local school districts and community colleges. The Education Protection Account (EPA) is created in the General Fund to receive and disburse these temporary tax revenues.

Districts have sole authority to determine how the moneys received from the EPA are spent, provided that the governing board makes these spending determinations in open session of a public meeting of the governing board. Each entity receiving funds must annually publish on its Internet web site an accounting of how much money was received from the EPA and how that money was spent. Additionally, the annual independent financial and compliance audit required of community colleges shall ascertain and verify whether the funds provided from the EPA have been properly disbursed and expended as required by law. Expenses incurred to comply with these additional audit requirements may be paid from the EPA.

EPA expenditures should be recorded annually on the CCFS-311 (Prop 30 EPA expenditure report, copy attached), which can also be used as a template for districts to publish their EPA expenditures on their website.

Revenue for EPA funds are unrestricted and should be recorded in object code 8630. The Act specifically prohibits the expenditure of EPA funds for administrative salaries and benefits or any other administrative costs. We are confident that colleges will incur a sufficient level of non-administrative costs (e.g., instruction and student support costs) to easily ensure that EPA funds are not used for administrative costs.

Consistent with the *Budget and Accounting Manual,* administrative costs include:

- General administration: district-wide administrative activities including governing board, chancellor, and district-level fiscal and personnel services.
- Campus administration: activities concerned with directing and managing the operation of a particular campus.
- Instructional administration: activities for assisting instructional staff in planning, developing, and evaluating the process of providing learning experiences for students.

Contact: If you have any questions, please contact Michael Yarber at (916) 327-6818 or via e-mail at myarber@cccco.edu.

Enclosure

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Enclosure

Appendix D

Guidelines for Distinguishing Between Supplies and Equipment

One common accounting challenge districts face is that of distinguishing between supplies and equipment, between equipment and improvement of grounds, and between equipment/building fixtures and service systems. Nevertheless, districts must correctly identify each expenditure if they are to achieve the necessary uniformity of accounting.

Whether an item should be classified as equipment or as supplies is determined on the basis of the length of time the item is serviceable and on its contribution to the value of the district. For example, supplies are constantly being consumed and replaced without increasing the value of the physical properties of the district. Equipment has relatively permanent value, and its purchase increases the value of the physical assets of the district.

Expenditures made by districts for equipment, improvement of sites, building fixtures and service systems are charged as capital outlay; expenditures for supplies are charged as current expense. The purchase of equipment either as direct purchase or lease-purchase must be recorded in object classification 6400, Equipment.

Supplies are items of expendable nature that are consumed or worn out, deteriorate in use, or are easily broken, damaged or lost. Examples include paper, pencils, cleaning materials, nails, scissors, test tubes, and keys.

Items that have a relatively short service life (less than one year) and that, therefore, must be replaced frequently are also charged as supplies. Examples include brooms, tools, and rubber stamps.

Computer software and hardware could fall into either category, supplies or equipment, depending on the cost and useful life. To determine which category of expenditure an item belongs, follow the questions and/or guidelines listed below.

Some articles clearly cannot be classified as either supplies or equipment. They have the characteristics of equipment, but they have a low unit cost or are frequently lost, broken or worn out and replaced in normal use. To obtain uniformity, the district should assign items to the various classifications on the basis of the answers to the questions in the list below:

1. Does the item lose its original shape and appearance with use?
2. Is it consumable, with a normal service life of less than one year?

3. Is it easily broken, damaged, or lost in normal use?
4. Is it usually more feasible to replace it with an entirely new unit than to repair it?
5. Is it an inexpensive item? Does the small unit cost make it inadvisable to inventory the item? See *Education Code* Section 81600.

If the answer to one of the above five questions is yes, the item should be classified as a supply item and the expenditure should be recorded within object classification 4000. If all answers are no, the item should be classified under object classification 6400, Equipment.

Another method of distinguishing equipment from supplies is to follow the useful flowchart below.

Guidelines for Distinguishing Equipment from Supply Items
(Listed in Priority Order)

Lasts more than one year ⇒ NO

⇓ Y E S

Repair rather than replace ⇒ NO

⇓ Y E S

Independent unit rather than being incorporated into another unit item ⇒ NO

At first NO
item is declared to be SUPPLY

⇓ Y E S

Cost of tagging and inventory small percent of item cost ⇒ NO

⇓ Y E S

EQUIPMENT

By way of example, let us classify both a personal computer and a calculator. The computer is likely to last more than one year, and if it did break down, it is most likely to be repaired. The calculator may last more than one year, but in the event that the calculator stopped working, it

Would be replaced, not repaired. Thus, it would be declared a supply. Although it is not necessary to continue down the list of other criteria, note that many of them support the classification of calculator as supply rather than equipment. It would not be subject to special control, because the cost of keeping inventory on it would represent a large percentage of the cost. Nor is the cost in excess of the minimum dollar value established by the Budget and Accounting Manual. All of these criteria strengthen the classification of calculators as supplies.

NOTE: It is important to note that the policies of a district may override any of these guidelines. Districts may also wish to include in their historical inventories, audit trace inventory system, or any other acceptable inventory system those items whose acquisition costs are less than the amount cited in the Budget and Accounting Manual. It may be desirable for individual districts to establish and maintain Capital Accounts for charging noninventoriable equipment that do not warrant the keeping of inventory records.

Repair parts that the district purchases for buildings, equipment and grounds, regardless of cost, are normally charged as supplies and would be accounted for under object 4000. Examples include plumbing fixtures; compressors, if part of a larger unit; bus transmissions; engines; and timer devices for automatic sprinkling systems.

Repair costs are those outlays which are necessary to keep an asset in its intended operating condition but which do not materially increase the value or physical properties of the asset. These costs would be accounted for under object 5000.

In contrast, all additions and betterments to fixed assets should be charged to a Capital Outlay account when acquired or when construction or installation is completed. An addition refers to a physical extension of some existing asset. A betterment exists when part of an existing asset is replaced by another and the replacement provides a significant increase in the life or value of the asset.

Capital Outlay expenditures are those that result in the acquisition of capital assets or additions to capital assets. They are expenditures for sites, improvement of sites, buildings, improvement of buildings, building fixtures, service systems, and purchase of initial or additional equipment.

Appendix E

Governmental Accounting Standards Board Statements

The following GASB pronouncements are most likely to affect California Community College Districts. This is not an all-inclusive listing of the Statements. Actual copies of the Governmental Accounting Standards Board Statements may be obtained from the GASB Web Site @ www.gasb.org Technical Issues tab and Summaries/Status.

GASB Statement No.	Title	Effective Date
Statement 34	Basic Financial Statements – and Management's Discussions and Analysis for State and Local Governments	Final Implementation for all Governments was fiscal years ending after June 15, 1999
Statement 35	Basic Financial Statements – and Management's Discussions and Analysis for Public Colleges and Universities – an amendment of GASB Statement 34.	Final Implementation for all Governments was fiscal years ending after June 15, 1999
Statement 36	Recipient Reporting for Certain Shared Nonexchange Revenues – and amendment of Statement 33.	For periods beginning after June 15 2000
Statement 37	Basic Financial Statements – and Management's Discussions and Analysis for State and local Governments: Omnibus – an amendment of Statement 21 and 34.	Final Implementation for all Governments was fiscal years ending after June 15, 2003.
Statement 38	Certain Financial Statement Note Disclosures	Final Implementation for all Governments was fiscal years ending after June 15, 2003
Statement 39	Determining Whether Certain Organizations are Component Units – an amendment of Statement 14.	For periods beginning after June 15, 2003
Statement 40	Deposit and Investment Risk Disclosures – an amendment of Statement 3	For periods beginning after June 15, 2004
Statement 42	Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries	For periods beginning after December 15, 2004
Statement 45	Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions	Final Implementation for all Governments was fiscal years ending after December 15, 2008.

Statement 46	Net Assets Restricted by Enabling Legislation – an amendment of Statement 34	For periods beginning after June 15, 2005
Statement 47	Accounting for Termination Benefits	For periods beginning after June 15. 2005
Statement 51	Accounting and Financial Reporting for Intangible Assets	For periods beginning after June 15, 2009
Statement 53	Accounting and Financial Reporting for Derivative Instruments	For periods beginning after June 15, 2009
Statement 54	Fund Balance Reporting and Governmental Fund Type Definitions	For periods beginning after June 15, 2010
Statement 55	The Hierarchy of Generally Accepted Account Principles for State and Local Governments	Issued March 2009 – Effective immediately upon Issuance
Statement 58	Accounting and Financial Reporting for Chapter 9 Bankruptcies	For periods beginning after June 15, 2009
Statement 64	Derivative Instruments: Application of Hedge Accounting Termination Provisions – an Amendment of Statement 53	For periods beginning after June 15, 2011

The Financial Accounting Standards Board (FASB) provides guidance over accounting for proprietary and non-expendable trust funds. Current guidance may be found at www.fasb.org.