

THE UNIVERSITY OF AKRON

FUND ACCOUNTING

FUND ACCOUNTING
VS
INDUSTRIAL MODEL

	FUND ACCOUNTING CATEGORIES									
	Current			Loan	Endow	Unexp	Plant		Inv. In	Agency
	Unresfr	Aux	Restr				Ret	Indebt	Plant	
Revenues/Additions (By Source)	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX
Expenditures/Deductions (By Function)	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX
Net	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX
Transfers In/(Out) Mandatory Non-Mandatory	(XXX)	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX
Net Increase/(Decrease) In Fund Balance	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX

INDUSTRIAL

Sales	<u>XXXX</u>
Cost of Goods Mfg./Admin. Exp.	<u>XXXX</u> <u>XXXX</u>
Total Exp.	<u>XXXX</u>
Net Profit	<u>XXXX</u>

**GOVERNING BODIES AND
REGULATORY AGENCIES
FOR UNIFORM FINANCIAL REPORTING**

1. American Institute of Certified Public Accountants (AICPA)
2. Governmental Accounting Standards Board (GASB)
3. Auditor, State of Ohio
4. Ohio Board of Regents
5. Individual Federal/State Agencies Granting Funds for Education,
Research and Public Service

ACCOUNTING DISTINCTIONS BETWEEN NOT-FOR-PROFIT AND COMMERCIAL ORGANIZATIONS

STEWARDSHIP VERSUS PROFITABILITY

One of the principal differences between not-for-profit and commercial organizations is that they have different reasons for their existence. In oversimplified terms, it might be said that the ultimate objective of a commercial organization is to realize a net profit for its stockholders through a product or service wanted by other people, whereas the ultimate objective of a not-for-profit organization is to deliver a desirable need to its clientele.

So long as the not-for-profit organization has sufficient resources to carry out its objectives, there is no real need or justification for "making a profit" or having a surplus. While a prudent board may want to have a "profit" in order to provide for a rainy day in the future, the principal objective of the board is to fulfill the functions for which the organization was founded through a balanced budget.

Not-for-profit organizations have an accountability for funds that they have received. This accountability may be for certain specific funds that have been given for use in a specific project, or it may be a general accountability to use all resources effectively toward the objectives of the organization. Thus, the emphasis is on accountability and stewardship.

INTER-FUND TRANSFERS

When studying the Fund Accounting vs Industrial Model, one thing sticks out very quickly and that is Transfers-IN (OUT). Readers not familiar with fund accounting oftentimes struggle with this concept. What is it, really? The primary thing is that it is not a revenue (IN) or an expense (OUT).

Transfers are presented "below the line". A transfer is an appropriation from one fund to one or more other funds for a very specific purpose. The expense occurs in the fund to which the transfer is moved.

There are mandatory transfers of funds required by external legally binding contracts or agreements such as bond indentures and matching arrangements for federal loan programs. There are also non-mandatory transfers designated by a board such as contingency and other reserves; paying off board-approved early retirement incentives and operating supplements to one or more auxiliary enterprise.

FUND ACCOUNTING

I. FUND ACCOUNTING DEFINED

Fund accounting is a system of accounting in which separate records are kept for assets appropriated or granted to an organization which are restricted by donors or outside parties to certain specified purposes or use. Assets which carry similar restrictions are usually commingled in a single "fund" and further accounted for as individual projects or accounts. The financial statements usually also follow this separate accountability and separate statements are prepared for each fund category.

There is really nothing difficult about fund accounting other than the mechanics. It is an accountability or stewardship concept, used principally by not-for-profit and governmental organizations that are legally responsible for seeing that certain funds or assets are used only for specified purposes. Not only must the organization actually use the funds properly, it must keep adequate records to show that it has done so. It is from this need to keep detailed records of transactions that "fund" accounting results.

II. CATEGORIES OF FUNDS

1. Current Funds

a) Unrestricted Educational and General

This fund contains no restricted assets, and the board can use the funds as it chooses to carry out the purposes for which the organization was founded.

b) Auxiliary Enterprises

Funds for the operation of activities primarily for the benefit of students, faculty and staff. These are assumed to be self-supporting out of revenues from services rendered. Included are funds for housing, dining, student centers, performing arts halls and parking. By State of Ohio and Ohio Board of Regents definitions, intercollegiate athletics is also considered an auxiliary enterprise.

c) Restricted

Funds that are expendable only for the specific operating purpose designated by the grantor, and any such funds not used are generally refundable to the grantor. These include funds for research, scholarships, and funds specifically designated for departmental use. Generally, some periodic reporting is required to the grantor.

II. CATEGORIES OF FUNDS, Continued

2. Loan Funds

These are funds which are available for granting loans to students. The largest individual accounts are the Federal Perkins Loans and Nursing Loans. Other rotating funds are from private sources.

3. Endowment Funds

This fund group includes two types of funds:

- a) Endowment funds. Contributions where the donor has stipulated that the principal is to be kept intact in perpetuity and only the income therefrom can be expended either for a general purpose or for a restricted purpose such as scholarships or professorships.
- b) Quasi-endowment. Where the Board, as distinct from the donor, has set aside unrestricted current funds or private donations for which the donor has not specified a restricted purpose to be used as endowment. Quasi-endowment funds are also known as "Board-Designated Endowment," or "Funds Functioning as Endowment."

4. Annuity and Life Income Funds

These are amounts where only the principal, and not the income to be earned thereon, has been given to the institution. The income is usually reserved by the donor for a specified period of time and the institution agrees to pay either a specified sum or the actual income earned to the donor for this period.

5. Plant Funds

Plant funds consist of four sub-groupings.

- a) Unexpended funds. These funds are amounts which are to be used for plant additions or modernization. Such funds will include cash and other investments which have been transferred to this fund for plant purposes.
- b) Funds for renewal or replacement. These funds represent amounts transferred from current funds for renewal or replacement of existing plant. Such amounts represent a form of funding in lieu of depreciation. In reporting, often these funds are combined with unexpended fund.

II. CATEGORIES OF FUNDS, Continued

- c) Funds for retirement of indebtedness. Transfers are made (mandatory) from operating accounts in the current fund for the purpose of repaying a debt. The periodic debt payment is made from this group.

- d) Investment in plant. This represents the cost of plant including land and equipment. The reporting basis is cost, or market value in case of gifts-in-kind.

6. Agency Funds

These are funds where the institution is acting as a fiscal agent for others.



THE UNIVERSITY OF AKRON
Vice President for Business & Finance

GLOSSARY OF FINANCIAL TERMS

The following definitions are to aid in the understanding of the monthly financial statements reported to the Board of Trustees.

RESOURCES

Non-Resident Surcharge: A state-mandated tuition surcharge assessed to undergraduate and graduate students who are not residents of the State of Ohio. This surcharge, which is based on student credit hours, is intended to partially offset the loss of incremental non-resident state subsidy.

Departmental Sales and Services: Activities which provide an instructional or laboratory experience for students and incidentally create goods or services which are sold to generate revenue. Unlike auxiliary enterprises, the reported revenues and expenses are included in the current unrestricted fund and are related to the conveyance of instruction, research, and public service. *(See attachment for list of Departmental Sales and Services accounts.)*

Indirect Cost: University overhead collected from research grants and contracts. The basis of recovery is a federally approved indirect cost rate. The rate is re-established at intervals of about 3-5 years as mandated by the government. The rate is applied to both federally and privately funded research, although many projects funded will not pay the total rate based on agency policies. Currently, the rate is 47% of direct costs, excluding equipment.

EXPENDITURES

Public Service -- Other: Includes Center for Urban Studies; Center for Family Studies; Institute for Futures Studies and Research; and Institute for Life-Span Development and Gerontology.

Academic Support -- Other: Includes expenditures generated in support of the instruction and research functions of the University, such as Deans' Offices, Orientation, etc.

Student Services: *See attached list.*

Institutional Support: Includes expenditures related to all aspects of the administration of the University. Human Resources, Business and Finance, and General Counsel--as well as the President's and Provost's Offices--are just a few of the areas included in this function.

TRANSFERS-OUT

NMR Loan: Repayment of an interest-free loan granted by the Ohio Board of Regents for the purchase of the NMR machine for the Chemistry Department. The loan of \$212,500 was executed in 1993, with the first of seven (7) installments being made in 1995.

Bonded Debt Repayment: Represents the General Fund portion of the 1997 \$36 million bond issue. Included the Buchtel Common Corbin Memorial, the Center for Child Development, and the Energy Conservation Project.

GLOSSARY OF FINANCIAL TERMS ATTACHMENT:
Departmental Sales & Services Accounts
Student Services Accounts

DEPARTMENTAL SALES & SERVICES:

3-09803	Industrial Math Clinic	3-09885	Health Related Continuing Ed.
3-09804	Educational Technology Center	3-09886	Resume' Expert
3-09805	UASC-Inst. for Global Business	3-09887	Akron Polymer Training Center
3-09806	English Language Institute	3-09888	UASC - CBA
3-09807	Microscale Physiochemical Eng.	3-09889	Electron Microbe X-Ray Lab
3-09808	IPS - NMR Center	3-09891	Research Royalties & Licenses
3-09809	IPS - Rapid Prototyping	3-09892	Biology Resource Center
3-09810	Training Ctr. - Law Enforcement	3-09893	Natatorium Special Events
3-09812	Chemical Testing	3-09895	Graphic Design Studio
3-09814	Geochemistry Lab	3-09896	GIS Center
3-09817	Coll. of Education Reading Clinic	3-09898	Children's Music Appreciation
3-09819	IPS - Applied Research		
3-09821	Cartographic & Spacial A. Lab		
3-09822	Computer-Based Search Services		
3-09823	Interlibrary Loans		
3-09824	Bierce Library Photocopying		
3-09825	Printing Services		
3-09827	Ctr. for Child Development		
3-09828	Audiology & Speech Center		
3-09831	Hospitality Management		
3-09835	Human Performance Lab		
3-09836	Law Library Photo Duplication		
3-09844	Crystal Room		
3-09848	Adult Resource Center		
3-09849	Ctr. for Fire & Hazmat Research		
3-09850	JAR Hall Rental		
3-09852	Dance Institute		
3-09853	University Media Productions		
3-09856	Compound Testing		
3-09857	Institute for Policy Studies		
3-09859	Polymer Engineering Test Lab		
3-09863	Installment Payment Plan		
3-09864	University Press		
3-09865	Molecular Spectroscopy Lab		
3-09869	Heisman Lodge		
3-09870	Ctr. for Employee Devel./Trng.		
3-09871	EPIC - Mini-Pilot Plant		
3-09872	EPIC-Blending/Compounding Ctr.		
3-09873	New Student Orientation		
3-09874	Computer Solutions		
3-09877	Music Preparatory Program		
3-09878	Vehicle Service		
3-09879	EPIC-Macromolecular Modeling		
3-09880	Alumni Merchandise Program		
3-09881	Surplus Property Recycling		
3-09883	International Orientation		
3-09884	Statistical Consulting Center		

STUDENT SERVICES (Selected Cost Ctrs.):

2-00129	UA Enrollment Initiative
2-00563	University Ambassadors
2-00600	Associate VP for Students
2-00601	Greek Affairs
2-00604	Coventry Campus
2-00605	Student Development
2-00606	Auxiliary Svc. & Programs
2-00607	Student Assistance Center
2-00608	University Program Board
2-00610	Admissions Office
2-00616	Student Service Initiatives
2-00622	New Student Orientation Office
2-00624	Orientation Support
2-00630	Financial Aid & Employment
2-00640	Office of the Registrar
2-00641	Schedule of Classes
2-00650	Counseling, Testing, Career Ctr.
2-00655	Asst. VP Student Affairs
2-00660	Plcmt. Svcs./Student Emplmt.
2-00661	Partners Program
2-00665	Dean of Students
2-00670	Health Services
2-00671	Drug Testing Program
2-00680	Student Conduct
2-00690	GSC Calendar Office
2-00691	Commencement
2-00692	Intramurals Office
2-00696	Extracurricular Activities
2-01006	Developing Co-Op Programs
2-01750	Law Student Organizations
2-04341	Student Affairs Assessment
2-04420	Black Cultural Center