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ABSTRACT

The Higher Education Finance Manual (HEFM) is intended to serve as a guide to higher education planners and managers in their understanding and use of institutional finance data. It addresses higher education finance data from the layman's perspective. The document includes definitions of accounting terms and descriptions of generally accepted financial statements in addition to outlines of potential uses for the data contained in those financial statements. Chapters discuss: (1) a definition of the problem and objectives of the HEFM project and the relationship of the HEFM to other publications; (2) HEFM data limitations and uses; (3) concepts of fund accounting; (4) definitions of financial terms; (5) uses and limitations of balance sheet, layered balance sheet, columnar balance sheet, and related categories; (6) statement of changes in funding balance including its uses, limitations, and related data categories; (7) statement of current funds revenues, expenditures, and other changes, including statement description, uses, limitations, and related data categories such as revenues and transfers in expenditures and mandatory transfers; (8) current funds source/use format with description of uses, limitations and statement preparation; (9) adaptations of the current funds source/use format including communication with funding sources and with legislature/governing boards, projective planning, resource acquisition/fundraising, and intrainstitutional planning and management; and (10) implications of the HEFM. (Author/KE)

HIGHER EDUCATION FINANCE MANUAL 1975

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FOREWORD

The Higher Education Finance Manual (HEFM) is intended to serve as a guide to higher education planners and managers in their understanding and use of institutional financial data. As such, it addresses higher education financial data from the layman's perspective. The document includes definitions of accounting terms and descriptions of generally accepted financial statements in addition to outlining potential uses for the data contained in those financial statements. This document is consistent with the American Institute of Certified Public Accountants' *Audits of Colleges and Universities* as amended August 31, 1974, and *College and University Business Administration - Administrative Service*, published in 1974 by the National Association of College and University Business Officers. It should provide the user a sufficient understanding of higher education finance to enable him or her to make effective use of institutional financial data in the decisionmaking process.

This document was prepared by the National Center for Higher Education Management Systems (NCHEMS) at the Western Interstate Commission for Higher Education under contract with the U.S. Department of Health, Education, and Welfare (Contract No. OEC-O-71-1381). It is intended that the data categories and definitions described in this document will be used as the basis for future finance sections of the Higher Education General Information Survey (HEGIS).

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In addition to the continuing direction and advice of the task force, more specific aid was provided by a large number of individuals throughout higher education. The author and task force wish to acknowledge in particular the efforts of the Joint Accounting Group (JAG) in developing many of the categories and definitions of financial data included in the document.

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SECTION I - INTRODUCTION

1. THE HEFM PROJECT

Higher education finance affects most individuals involved in, or concerned with, higher education as well as most decisions made and questions asked about higher education. For a project like the HEFM it obviously was necessary to include a consideration of the very wide range of concern finance touches on. Thus, the task force chosen to direct the development of this manual was the largest and most diverse ever to work on a project for NCHEMS. It included representatives of many different kinds of higher education institutions (both public and private) as well as representatives of State and Federal agencies and legislative bodies and of national organizations representing the various constituencies involved in higher education financial planning and management. The advice and direction of the task force and several other advisory groups, along with the informal critique and review of individuals throughout higher education, have resulted in this document.

DEFINING THE PROBLEM

The need for the HEFM project has arisen from marked changes in the environment in which education planning and management is conducted, from the introduction of a broader and more diverse constituency in the planning and management process, and from major changes in the kind of financial information asked for and needed to make meaningful planning and management decisions at all levels.

The *environment* in which higher education planning and management must be conducted today is quite different from that of the expansive 1960's. Planning must now not only reflect the possibility of growth, but also the likelihood of constant or even declining conditions. Furthermore, the environment for decisionmaking has been affected by cutbacks in funding, increased costs, projections of declining enrollments, the disenchantment of the public over campus disorders, and the dilemma of unemployed graduates. In addition, today's decisions often focus on the broader concept of postsecondary education rather than on higher education as a separate entity. This means that colleges and universities often find themselves competing with vocational/technical schools, proprietary (profit-seeking) schools, universities without walls, and even correspondence courses for both public support and students.

The *constituency* with which higher education must now communicate has expanded. Institutions have begun to seek new sources of funds and wider audiences. For example, private institutions are looking to State agencies or State legislatures for funds. Public institutions, on the other hand, are being forced to rely increasingly on tuition from students as a source of funds and have begun to cultivate their alumni more assiduously than in the past. Public and private institutions are looking increasingly to the Federal Government as a potential source of financial support.

Finally, the *financial information* used in the conduct of higher education planning and management has changed. Today there is widespread interest in costs and program information, there are requirements for more detailed information about almost every aspect of the institution's operations—past, present, and future. There has been a widespread introduction of centralized planning in higher education. The planner, as intermediary in this process, is asked to collect raw financial data from institutions, to aggregate it, to rearrange it, to combine it with nonfinancial data, and to apply it to the problem of concern to the decisionmaker. Although it is not always possible to know ahead of time the specific problems that will face decisionmakers, the data that planners must

use in addressing these problems remain essentially unchanged. As a result, planners at all levels are asking for financial data that can be related to nonfinancial data, that can be related as closely as possible to the questions decisionmakers will be asking (i.e., that is structured around the objectives and outputs of education), and that can be understood and used by persons unfamiliar with the details of any particular institution's operations. Institutions are being asked to provide "compatible" data; i.e., data that can be compared to similar data at similar types of higher education institutions.

OBJECTIVES OF THE HEFM PROJECT

The primary goals of the HEFM project are to assist in the use of financial data in higher education planning and decisionmaking, and to facilitate "communication" between those who provide and those who use the data. In determining what kind of manual should be written to attain these goals, the task force decided to look first at the major issues confronting higher education decisionmakers. The task force considered such issues as student access to higher education, higher education's impact on manpower needs, research in higher education, the financing of higher education, efficiency and effectiveness in the management of higher education, the quality of educational programs, the economic impact of higher education, institutional financial health, the diversity of educational offerings, and the allocation of resources in higher education. The need for and the use of financial information in the decisionmaking process and the problems in communicating such information were examined separately for each of these issues.

On the basis of this analysis, the task force decided that the HEFM could make the biggest contribution to higher education planning and decisionmaking by:

1. Describing the principles and practices associated with higher education fund accounting so that the "layman" can better understand financial data presented in a fund accounting format.
2. Providing uniform definitions and procedures for displaying and reporting those financial data used most often in higher education.
3. Describing formats for the display and reporting of institutional financial data that logically organize those data specifically for the needs of planning and management.
4. Providing explanations of the uses and limitations of higher education financial data provided in those formats so users of the information will better understand its significance and how it can be applied.

RELATIONSHIP OF THE HEFM TO OTHER PUBLICATIONS

There are two other publications which deal with higher education finance: *Audits of Colleges and Universities*; referred to as the "Audit Guide," published in 1973 and revised in 1974 by the American Institute of Certified Public Accountants (AICPA), and *College and University Business Administration-Administrative Service*, referred to as the "CUBA '74 Manual," published in 1974 by the National Association of College and University Business Officers (NACUBO). These publications and the HEFM represent three authoritative, but distinct, discussions of higher education finance, each one serving a different constituency.

The stated purpose of the Audit Guide is "...for the guidance of members of the Institute (auditors) in examining and reporting on the financial statements of colleges and universities..." As such the Audit Guide sets forth the accounting definitions, report formats, and audit procedures the accounting profession feels must be used in order to provide for the full and adequate disclosure of the institution's financial status and the results of its operations. The focus of the Audit Guide is on the responsibilities of the auditor in conducting audits of higher education institutions.

The purpose of the CUBA '74 Manual is to serve as a guide to the institutional business officer. It covers all aspects of the business officer's job, from investment management, to personnel administration, to legal problems. Principles of accounting and general practices associated with financial reporting are covered.

As described earlier, the purpose of the HEFM is to facilitate the communication of financial data for purposes of planning and management. As such it is not limited to one single constituency, but is intended to serve all parties that must use higher education financial data. The primary difference between the HEFM and the other

two documents is its focus on the *users* of institutional financial information and more specifically on those users that would be considered "laymen" relative to higher education fund accounting. Accounting terms and report formats are defined and described for persons unfamiliar with higher education accounting data rather than for the auditor or the business officer.

The definitions of terms, accounting procedures, and data categories set forth in all three documents are intentionally consistent. Therefore, the business officer, in using the CUBA '74 Manual, can be assured that it is compatible with guidelines set forth for the auditor in the Audit Guide. By the same token, readers of the HEFM can be certain that the HEFM's less technical description of fund accounting is accurate and valid for their particular needs.

2. HOW WILL THE HEFM HELP ITS READER?

The goal of the *Higher Education Finance Manual* is to assist in higher education decisionmaking as it relates to the communication and use of institutional financial data. The HEFM definitions, report formats, and descriptions of potential uses and limitations should help persons involved in all phases of the decisionmaking process, as well as persons who are interested only in a better understanding of higher education financial reports. For purposes of describing the uses of the HEFM, a reader will be classified as (1) a data provider or (2) a data user. The *data provider* is the person who prepares the institution's financial reports as well as miscellaneous financial information when needed in the planning or management process. The *data user* is anyone who has occasion to make use of higher education financial information. It is recognized that in many instances an individual (e.g., an institution's financial officer) will be both a data provider and a data user.

DATA PROVIDER

Since the HEFM deals only with institutionally maintained financial data, the data provider in most cases will be the institutional financial officer, whether referred to as the business officer, the controller, the vice-president for finance, or by some other title. The following are examples of how the HEFM might help the data provider:

1. The HEFM describes a set of definitions, categories, and accounting procedures for the uniform display and reporting of institutional financial data. Incorporation of these definitions, categories (in particular the revenue and expenditure categories), and procedures into the institution's accounting system will give the data provider the capability to prepare uniform financial statements consistent with the recommendations of AICPA, NACUBO, and NCHEMS. These same definitions and categories will be used in future financial sections of the *Higher Education General Information Survey* (HEGIS) and are being adopted for reporting purposes by many State-level planning agencies.
2. The HEFM describes expenditure categories that will minimize the need to perform "crossover" procedures in order to report expenditure data in the NCHEMS Program Classification Structure (PCS). Formerly, reporting an institution's expenditures in the PCS format required the reaggregation of expenditures, sometimes involving arbitrary allocations, from the institution's expenditure categories into the PCS categories. Such crossover procedures are usually not only quite elaborate and time-consuming, but they sometimes result in information that can be misleading or inaccurate. A crossover from the expenditure categories described in the HEFM, rather than requiring multiple allocations, usually involves only a simple addition or subtraction of an entire category or subcategory of expenditures. Use of these expenditure categories, therefore, will simplify the crossover procedures and will also improve the accuracy and value of the data being reported in the PCS format.
3. The HEFM describes the specific data elements and other accounting system capabilities needed to prepare the report formats it contains. It will, therefore, aid the data provider in determining what is needed to ensure that the institution's accounting system is capable of providing those data needed to prepare these financial reports.
4. The HEFM describes potential uses and limitations of the HEFM display formats so that data users will make more meaningful requests for information. This should alleviate some of the frustrations of data providers when asked to supply information that they feel will mislead, rather than enlighten, the users.

DATA USER

Data users are found at all levels (institutional, local, State, and Federal) of higher education planning and management and include anyone who may have occasion to use institutional financial data. Data users include

staff persons who must supply the information needed to support decisions, as well as the actual decisionmakers themselves. Data users also include other persons interested in, and concerned with, the financial operations of higher education (e.g., donors, researchers, and the general public) whether they are actively involved in the decisionmaking process or not. As mentioned earlier, in some cases the data user and the data provider are the same person. Ways in which the HEFM can help the data user include the following:

1. The HEFM facilitates the exchange and use of comparable financial information, both among institutions and between levels of decisionmaking, through the definitions, categories, and report formats it provides. Although comparable definitions and formats do not assure comparable data, they do provide a basis for such comparability and they improve the ability of the user to assess the degree of comparability that does exist.
2. The section entitled "Higher Education Financial Reports" has been included to help the data user better understand some of the unique characteristics of higher education accounting and financial reporting.
3. The HEFM report formats (in particular the source/use formats) attempt to rearrange institutional financial data so that they can be more readily used and understood by persons unfamiliar with fund accounting. The HEFM, therefore, will aid users in describing an institution's finances to institutional governing boards and State and Federal higher education agencies.
4. The discussion of the uses and limitations of the HEFM formats is written specifically for the data user. It should give the user guidance on the information that should and should not be used in particular situations.
5. When used in conjunction with other institutional data, financial data can be used for many different kinds of analyses. If the financial data are consistent with HEFM's definitions and procedures, the user can be assured that those financial data are compatible with NCHEMS products which describe such analyses.

LIMITATIONS OF THE HEFM MANUAL

There are certain things that the HEFM cannot do for its users:

1. The HEFM does not address *all* higher educational financial data. It addresses only those financial data ordinarily maintained in institutional accounting systems. It therefore excludes "derived" financial data (e.g., the total student financial aid "package" as provided through a combination of scholarships, loans, work programs, etc.) and it excludes financial data an institution would not ordinarily maintain in its own records (e.g., total Federal dollars expended for research at all colleges and universities in the State or the Nation).
2. The primary emphasis of the HEFM is on the *reporting* of financial data. Therefore, the manual suggests relatively gross aggregations of data. For many purposes, particularly those related to planning and management within the institution, much more detailed information is required. However, the formats themselves can easily be prepared using more detailed information.
3. In the decisionmaking process, financial data must be related to nonfinancial data, to the objectives of the institution, and to circumstances over which an institution often has no control. The HEFM does not provide guidance as to how these functions are to be accomplished.

SECTION II – HIGHER EDUCATION FINANCIAL REPORTS

3. CONCEPTS OF FUND ACCOUNTING

One of the major problems encountered in past efforts to effectively communicate higher education financial data has been a lack of understanding of financial reports prepared in accordance with the generally accepted practices and principles of higher education accounting. This section attempts to explain the basic concepts of higher education accounting and to define the terms used in reporting higher education financial information.

Two characteristics that have a major influence on the kind of reporting used in higher education are (1) the nonprofit nature of higher education institutions and (2) the unique flow of revenues in higher education.

- *Nonprofit nature of higher education*—Higher education institutions are created to carry out the functions of instruction, research, and public service rather than to produce profits. Naturally, the institution will want to be able to provide for its future operating needs, and an accumulation of revenues over expenditures is an important source of funds for future needs. The user of higher education financial data, however, should focus on the sources and uses of institutional resources and the way in which those uses contribute to the attainment of the institution's objectives.

- *Flow of revenues*—In the profit sector each product is purchased by one consumer who pays at least the company's full cost of producing the product. However, in higher education the "products" (instruction, research, public service) are paid for by a number of sources (private gifts, tuition, governmental appropriations, etc.) each of which pay some portion of the total cost. The persons or agencies providing the revenues are not necessarily the same persons or agencies that directly benefit from the products of higher education (e.g., donors usually receive no goods or services in return for their gifts).

Donated monies are major sources of income for higher education institutions. However, monies are often donated with accompanying "restrictions" that stipulate how they are to be used by the institution. These restrictions usually are specified by the donor as a precondition for the acceptance of the funds by the institution and are legally binding. Funds also are received in return for goods or services that must be rendered to the payer. These monies may be either unrestricted funds (e.g., student tuition), or funds on which very specific restrictions have been placed (e.g., Federal research contracts). This mixture of restricted and unrestricted funds introduces to higher education financial reporting an additional dimension that does not exist in the profit sector.

As a result of these and other characteristics of higher education finance, a type of financial accounting known as "fund accounting" is used for the maintenance and reporting of financial data. Problems in understanding and using higher education financial reports often can be traced to a failure to understand the basic concepts of fund accounting. The following discussion should help the reader of financial reports by outlining these basic concepts and by describing several of the more important reporting practices used in the preparation of higher education financial reports.

Classification of accounts into fund groups

The basis for almost all fund accounting reports is the concept of "fund groups." A fund group is used to report all those institutional resources that are available for, or restricted to, the same purpose. Each fund group

may include resources that are restricted to a particular purpose as well as those unrestricted resources that the institution decides to use for the same purpose.

The fund group is the basic reporting entity in fund accounting--assets and liabilities and fund balances are reported by fund group and the movement of institutional resources is reported into, out of, and between the various fund groups. There are six generally accepted fund groups for the reporting of higher education financial data:

- Current Funds
- Loan Funds
- Endowment and Similar Funds
- Annuity and Life Income Funds
- Plant Funds
- Agency Funds

These fund groups are defined in chapter 4.

Unrestricted, restricted, and designated funds

It was pointed out earlier that restrictions often are placed on the use of certain institutional funds. However, there are various types and degrees of restrictions. *Unrestricted funds* are monies that the institution's management may use for any purpose it deems necessary. *Restricted funds* are given to the institution for a very specific purpose and must be used only for that purpose. *Designated funds* are unrestricted funds for which the institution's governing board stipulates a specific use, thereby "designating" them for that purpose only. However, the governing board may change the designation at any time and redesignate the funds for some other use; therefore, *designated funds* are included in *unrestricted funds* in financial reports.

It can be stated generally that any monies added directly to a fund group other than the "Current Fund" are *restricted*. All *unrestricted funds* the institution receives must be reported first in the unrestricted "Current Fund." Then if necessary or desirable, they may be classified as *designated* and transferred to another fund group.

Transfers and interfund borrowing

Accounting for the institution's resources in several fund groups is somewhat analogous to several distinct businesses operated by one manager--the institution. Therefore, it is not unusual for the institution to make transfers between fund groups whenever necessary and permissible. If the institution determines that one fund group needs additional resources in order to adequately perform its functions, the institution often will "borrow" them from the unrestricted funds of one of the other fund groups. If it is intended that the money be paid back to the lending fund group, the transaction is referred to as an *interfund borrowing*. Interfund borrowings are shown in financial reports as a *due to* (liability) in the borrowing fund group and as a *due from* (asset) in the lending fund group.

A second procedure used to provide funds to other fund groups is to take the money out of unrestricted funds without paying it back. This type of transaction is known as a "transfer." For reporting purposes, there are two types of transfers: *nonmandatory transfers* and *mandatory transfers*. A *nonmandatory transfer* is made at the discretion of the institution's governing board between unrestricted funds and another fund group. A *mandatory transfer* is made from unrestricted funds to fulfill a legal obligation of the institution in another fund group. For example, if funds are needed to meet debt obligations in the "Plant Fund," a *mandatory transfer* may be made from the unrestricted "Current Fund" to the "Plant Fund." If the same kind of transfer is made with no attendant legal obligation, it would be reported as a *nonmandatory transfer*.

Current fund revenues

The accrual basis of accounting recommended for use in higher education stipulates that revenues are reported only *when earned*. Therefore all unrestricted monies are reported as revenue as soon as they are accepted by the

institution. However, restricted funds are not earned until all of the terms of the agreement under which they were given to the institution have been met and these terms are met only when the monies are expended in accordance with those restrictions. Thus, restricted funds are initially reported as *additions* when they are received (all *additions* are reported in the "Statement of Changes in Fund Balances") and are not reported as revenues until they have been expended. The term "revenues" is generally used only in the "Current Fund" and includes (1) all *unrestricted* monies *accepted* during the reporting period and (2) that portion of *restricted* funds *expended* for operating purposes during the reporting period.

Notes to financial statements

While the inclusion of "notes" in the institution's financial statements is not unique to fund accounting, notes are an important factor in understanding higher education's financial reports. The significant accounting policies followed by the institution and the basis of reporting used by the institution (i.e., cash or accrual) are described in a "notes" section of the financial statement. In addition to such general accounting policy statements, the notes may include explanations of certain figures shown on the financial statement. It should be noted that the relevance of each item for a particular institution usually will determine whether or not it is described in the notes to the financial reports. Financial reports often include the following notes:

1. *Valuation of assets* - The method of valuation used to record assets (either at cost or at fair market value).
2. *Performance of investment portfolio* - The total performance (yield, gains, and losses) of the institution's investment portfolio based on cost and market value.
3. *Pledges receivable* - Pledges of gifts, including uncollected subscriptions, subscription notes, and estate notes. These should be disclosed in the notes, if material, unless they are reported in the financial statements.
4. *Interfund borrowings* - The terms of various interfund borrowings and a disclosure of repayments, except for temporary advances.
5. *Long-term debt* - The composition of the institution's long-term debt. The terms of the various borrowings and the respective repayment schedules generally are shown as well as a disclosure of the "current" portion of long-term debt (that portion due within the current reporting period).
6. *Donated services* - The method used to determine imputed values for significant amounts of donated services.
7. *Contracts in progress* - The types and amounts of contracts in progress for the construction of new physical plant. Often the method used to finance new construction is disclosed also.

4. DEFINITIONS OF FINANCIAL TERMS

This chapter outlines definitions of some financial terms that are frequently encountered when using higher education financial reports. Definitions of those data categories found on the "Balance Sheet," the "Statement of Changes in Fund Balances," and the "Statement of Current Funds Revenues, Expenditures and Other Charges" are included in the respective HEFM chapter describing those financial reports.

FUND GROUPS

1. *Current Funds* - This fund group includes all of those resources used, or available for use, in carrying out those operations directly related to the institution's educational objectives. It also includes those monies associated with the operation of the institution's auxiliary enterprises. This fund group generally is shown in financial reports as two distinct subgroups—"Current Fund-Unrestricted" and "Current Fund-Restricted." Monies in the "Current Fund-Unrestricted" subgroups are available for any purpose in the "Current Fund" or any other fund group. Monies in the "Current Fund-Restricted" subgroup are restricted to a very specific aspect of the institution's current operations.
5. *Loan Funds* - This fund group consists of those resources that have been loaned or are available for loans to students, faculty, and staff. The unrestricted and restricted fund balances generally are shown separately in financial reports. Unrestricted funds in the loan fund group are funds that have been designated for loan purposes by the governing board. Restricted loan funds have been restricted for loan purposes by the funder.
3. *Endowment and Similar Funds* - This fund group includes funds for which the principal is nonexpendable and that are intended to be invested to provide earnings for institutional use. Two methods of determining the earnings available for use are employed currently by higher education institutions. One method stipulate that only current yield (ordinary income such as interest and dividends) on the investment of endowment funds may be used. The second method (known as the "total return concept") allows additionally for a portion of the capital gains of invested endowment funds to be used also. Both methods of determining expendable endowment earnings are generally accepted accounting practices—the institution's governing board generally decides which procedure is appropriate for its institution's particular needs. The "Endowment and Similar Funds" group is reported in three subgroups:
 - *Endowment Funds* - Funds for which donors or other outside agencies have stipulated, as a condition of the gift, that the principal always be maintained inviolate. Only the earnings on the investment of these funds may be used.
 - *Term Endowment Funds* - Funds for which the principal must be kept intact, except that upon the passage of a stated period of time or the occurrence of a particular event all or a part of the principal may be expended. Once the term expires the funds may be used either subject to board designation or for some purpose stipulated previously by the donor.
 - *Quasi-Endowment Funds* (or funds functioning as endowment) - Funds that the governing board of the institution, rather than a donor or other external agency, has determined are to be retained and invested. Since these funds are not required by the donor to be retained and invested, the principal as well as the income may be totally utilized at the discretion of the governing board, subject to any donor-imposed restrictions on use.
4. *Annuity and Life Income Funds* - This fund group includes all funds carrying a stipulation that the institution make payments to one or more specified beneficiaries. If the institution is obligated to pay the beneficiary a

- stipulated amount, the fund is classified as an "Annuity Fund." If the institution agrees to pay only the income earned by the assets of the fund or a stipulated percentage of its market value it is classified as a "Life Income Fund." Upon the death of the beneficiary, or at some agreed upon date, the principal of the "Annuity" or "Life Income Fund" becomes the property of the institution. It then is available for use at the discretion of the institution or in accordance with the terms of the agreement. "Annuity Funds" and "Life Income Funds" generally are maintained as two separate subgroups, but are combined for reporting purposes.
5. **Plant Funds** - Fund accounting reports the institution's physical plant assets in a separate fund group rather than as assets in several fund groups. The "Plant Fund" includes all of the institution's physical plant assets as well as the monies that are set aside to be used to fund new construction or acquisitions, debt service on plant, and renewal and replacement reserves. The "Plant Fund" is reported in four subgroups:
- **Unexpended Plant Funds** - Funds that are available for new construction, renovations, and acquisition of physical properties but which are, as of the date of reporting, unexpended.
 - **Funds for Renewal and Replacement** - Funds set aside for the renovation and improvement of institutional properties. This subgroup does not include those funds used for the ordinary maintenance and repair of institutional properties—such monies are reported in the "Current Fund."
 - **Funds for Retirement of Indebtedness** - Funds set aside to pay off the debt on institutional properties (both principal and interest charges).
 - **Investment in Plant** - All institutional funds invested in physical plant assets and the amount of outstanding debt on physical plant.
6. **Agency Funds** - The institution often acts as the fiscal agent for funds it does not own. In such cases the institution usually is providing accounting services to the organization(s) or person(s) to which the monies belong. All funds the institution holds as custodian or fiscal agent for student organizations, individual students, faculty members, and so forth are reported in the "Agency Fund." However, when agency funds are not a material item, they may be reported as an element in the "Current Fund." Whenever the purpose of a particular report or financial statement is to disclose the total resources available for use by the institution, agency funds are excluded or simply footnoted.

OTHER HIGHER EDUCATION FINANCE TERMS

- **Accrual** - The basis of accounting and reporting under which (1) revenues are reported when they are earned, even though the funds may be received subsequent to a reporting period, and (2) expenditures are reported when the materials or services are received even though payments for them may not have been made as of the date of the financial report. The "accrual basis" is contrasted with the "cash basis" in which revenues are reported as soon as the cash is received or made available to the institution and expenditures are not reported until the monies for the payment have been disbursed. Generally accepted accounting practice in higher education stipulates that financial reports be prepared on the accrual basis.
- **Addition** - An addition of new institutional resources in any fund group. It does not include those funds that are moved out of one fund group and into another (such a transaction would be a *transfer*).
- **Debt Service** - Those funds used in connection with the payment of institutional debt. Includes principal payments, interest charges, transfers to sinking funds to ensure future principal and interest payments, trustees service charges, legal expenses, and other items related to indebtedness.
- **Deduction** - Those funds used out of a particular fund group during the reporting period. It does not include funds that are moved out of one fund group and into another (such a transaction would be a *transfer*).
- **Expenditures** - Charges to both the "Current Fund" and the "Plant Fund." Expenditures in the "Current Fund" are made for the general operation of the institution. Expenditures in the "Plant Fund" are made for additions to, or improvements in, the institution's physical plant.
- **Educational and General** - All operations related to instruction, research, public service, academic support, student services, operation and maintenance of plant, institutional support, and scholarships and fellowships. Excluded are expenditures for auxiliary enterprises and hospitals. In financial reports, the term *educational and general* represents an aggregation of "functional" expenditure categories.

- **Functional Classification** - The categorization of institutional expenditures according to the purpose for which the costs are incurred. The "functional" categories generally recommended for "Current Fund" expenditures are: *Instruction, research, public service, academic support, student services, institutional support, operation and maintenance of plant, scholarships and fellowships, auxiliary enterprises, hospitals, and independent operations.*
- **Fund Balance** - The difference between the assets and liabilities of a particular fund group. This figure may be either positive or negative. Financial reports generally differentiate between the unrestricted and restricted portions of the fund balance for each fund group.
- **Object Classification** - The categorization of institutional expenditures according to the type of goods or services received in return for the expenditures. Some examples of object classifications include personal services, supplies, travel, fuel, and equipment.
- **Revenue** - See page 8.
- **Transfer** - The movement of funds from one fund group to another fund group with no intention of paying back the donor fund group. A more detailed description of transfers is provided on page 8.

SECTION III – HIGHER EDUCATION FINANCIAL STATEMENTS

This section describes the three financial statements most commonly used to display higher education financial data. The "Balance Sheet," the "Statement of Changes in Fund Balances," and the "Statement of Current Fund Revenues, Expenditures, and Other Changes." In order to assist users in understanding and using the data set forth in each of these financial statements, the HEFM provides the following for each statement:

1. A description of the *format* used for each financial statement. This description should help users find the information they need more easily. In addition, the HEFM tells readers how the three financial statements relate to each other (e.g., how those data outlined in the "Balance Sheet" relate to those in the "Statement of Changes in Fund Balances").
2. *Definitions* of those data categories typically shown on each financial statement. These definitions outline those data that should be classified within each category in addition to describing the fund accounting procedures which affect the handling and reporting of the data in that category.
3. A discussion of the *uses and limitations* of each financial report. Knowing what information to use and knowing when and how to use it is just as important as the information itself. A frustration often felt by data providers is having to report information in such a way that will mislead, rather than enlighten, the user. Likewise, it is equally frustrating when users do not know what kind of information is available and are forced to use data that cannot be easily related to their problem. Therefore, a discussion of the uses and the limitations of each financial report is included. This discussion provides some general guidelines for using the three financial statements. For each statement a set of hypothetical questions are answered using information contained in the statement.

It should be emphasized that the financial reports shown in the following three chapters are illustrative and that the level of detail used to display financial data in each report is not necessarily essential or useful for all planning and management purposes. For any particular need, users should make their own determination of what information is required and ask for that level of data detail in each financial statement. In some instances, the "materiality" of a particular piece of information will determine whether or not it should be separately itemized. However, if a comparison of the data with data from similar institutions is to be conducted, a specific set of data categories may have to be used with the requirement that all categories be reported, even if zeros are reported in certain categories.

5. "BALANCE SHEET"

The "Balance Sheet" shows a reading of the institution's financial condition at a particular point in time. Although many people are familiar with balance sheets as they are prepared for the profit sector, the balance sheets prepared for higher education are complicated by the necessity for reporting in accordance with the principles of fund accounting. A balance sheet for an institution of higher education is formatted so that assets and liabilities are shown separately for each fund group. This separation of assets and liabilities by fund groups may be shown in one of two different ways. The *layered* format is one in which a series of "mini-balance sheets" are prepared for each fund group and displayed in layers (one on top of the other). The *columnar* format shows the assets and the liabilities associated with each fund group side by side in the appropriate fund groupings.

"LAYERED BALANCE SHEET"

The "Layered Balance Sheet" is composed of a series of mini-balance sheets, one for each major fund group, displayed in a series of succeeding layers (see figure 1). Each layer is a self-balancing statement of the assets, liabilities, and fund balance for that particular fund group, and this series of mini-balance sheets comprises the institutional balance sheet.

One of the advantages of the "Layered Balance Sheet," as seen in figure 1, is that it usually is prepared with the prior year's figure displayed adjacent to the current year's figure for each item. For purposes of planning and management, this format provides the user with easily obtainable trend data for every item shown on the balance sheet. "Layered Balance Sheets" can be prepared showing comparative data for each item for more than 2 years, or a comparison of a series of "Layered Balance Sheets" prepared for successive years can be made to show even longer term trends.

The primary advantage of the layered format is that it tends to focus the user's attention more directly on individual fund groups. This emphasizes the intended, and the legally restricted, uses of the institution's resources although it is sometimes difficult to get a total institutional picture using the layered format.

"COLUMNAR BALANCE SHEET"

The "Columnar Balance Sheet" displays the institution's assets, liabilities, and fund balances side by side in separate columns for each fund group (see figure 2).

The primary utility of the "Columnar Balance Sheet" is that in displaying assets, liabilities, and fund balances spread across the various fund groups, it provides the user a better total institutional picture than other formats. The columnar format allows the user to look at a particular item (e.g., cash) and see immediately where the item is accounted for among the various fund groups. This focuses the user's attention on the distribution of assets and liabilities among the various fund groups in addition to focusing attention on the extent and the degree of the restrictions placed upon their use.

One of the potential limitations of the "Columnar Balance Sheet" is that it sometimes leads users to derive totals for the various items of assets, liabilities, and fund balances. Although the derivation of totals can be meaningful for certain items when properly used and understood, improper use can lead to invalid and misleading conclusions. For example, while users might want to derive a figure on the "Columnar Balance Sheet" for total cash, they should *not* assume that this figure shows the total cash available for any use. In fact, if this figure is to be meaningful the user must focus on how the cash is distributed among the various fund groups (i.e., its intended use) and whether the cash is restricted or unrestricted within each fund group (i.e., whether its intended use can be changed). Failure to look at these aspects of the institution's cash position will result in an invalid understanding of the information shown on the financial report.

Figure 1. "Layered Balance Sheet"

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

Sample Educational Institution

Liabilities and Fund Balances

Assets

		Current Funds		Current Funds	
		Current Year	Prior Year	Current Year	Prior Year
Assets					
Current Funds					
Unrestricted					
Cash		\$ 210,000	\$ 110,000	\$ 125,000	\$ 100,000
Investments		450,000	360,000	20,000	15,000
Accounts receivable, less allowance of \$18,000 both years		228,000	175,000	30,000	35,000
Inventories, at lower of cost (first-in, first-out basis) or market		90,000	80,000	158,000	120,000
Prepaid expenses and deferred charges		28,000	20,000	30,000	20,000
Total unrestricted		<u>1,006,000</u>	<u>745,000</u>	<u>643,000</u>	<u>455,000</u>
Restricted					
Cash		145,000	101,000	14,000	5,000
Investments		175,000	165,000	446,000	421,000
Accounts receivable, less allowance of \$8,000 both years		68,000	160,000		
Unbilled charges		72,000	426,000	450,000	426,000
Total restricted		<u>460,000</u>	<u>1,171,000</u>	<u>1,466,000</u>	<u>1,171,000</u>
Total current funds		<u>1,466,000</u>	<u>1,171,000</u>	<u>1,466,000</u>	<u>1,171,000</u>
Loan Funds					
Cash		30,000	20,000	50,000	33,000
Investments		100,000	100,000	483,000	369,000
Loans to students, faculty, and staff, less allowance of \$10,000 current year and \$9,000 prior year		550,000	382,000	150,000	180,000
Due from unrestricted funds		3,000		683,000	502,000
Total loan funds		<u>683,000</u>	<u>502,000</u>	<u>683,000</u>	<u>502,000</u>
Endowment and Similar Funds					
Cash		100,000	101,000	7,800,000	6,740,000
Investments		13,900,000	11,800,000	3,840,000	3,420,000
Total endowment and similar funds		<u>14,000,000</u>	<u>11,901,000</u>	<u>14,000,000</u>	<u>11,901,000</u>
Liabilities and Fund Balances					
Current Funds					
Unrestricted					
Accounts payable					
Accrued liabilities					
Students' deposits					
Due to other funds					
Deferred credits					
Fund balance					
Total unrestricted					
Restricted					
Accounts payable					
Fund balances					
Total restricted					
Total current funds					
Loan Funds					
Fund balances					
U.S. Government grants refundable					
University funds					
Restricted					
Unrestricted					
Total loan funds					
Endowment and Similar Funds					
Fund balances					
Endowment					
Term endowment					
Quasi-endowment—unrestricted					
Quasi-endowment—restricted					
Total endowment and similar funds					

Annuitiy and Life Income Funds

Annuitiy funds	
Cash	\$ 55,000
Investments	3,260,000
Total annuity funds	<u>3,315,000</u>
Life income funds	
Cash	15,000
Investments	2,045,000
Total life income funds	<u>2,060,000</u>
Total annuity and life income funds	<u>5,375,000</u>

Plant Funds

Unexpended	
Cash	275,000
Investments	1,285,000
Due from unrestricted current funds	150,000
Total unexpended	<u>1,710,000</u>

Renewals and replacements

Cash	5,000
Investments	150,000
Deposits with trustees	100,000
Due from unrestricted current funds	5,000
Total renewals and replacements	<u>260,000</u>

Retirement of indebtedness

Cash	50,000
Deposits with trustees	250,000
Total retirement of indebtedness	<u>300,000</u>

Investment in plant

Land	500,000
Land improvements	1,000,000
Buildings	25,000,000
Equipment	15,000,000
Library books	100,000
Total investment in plant	<u>41,600,000</u>
Total plant funds	<u>43,870,000</u>

Agency Funds

Cash	50,000
Investments	60,000
Total agency funds	<u>110,000</u>

Annuitiy and Life Income Funds

Annuitiy funds	
Annuities payable	\$ 2,150,000
Fund balances	1,165,000
Total annuity funds	<u>3,315,000</u>
Life income funds	
Income payable	5,000
Fund balances	2,055,000
Total life income funds	<u>2,060,000</u>
Total annuity and life income funds	<u>5,375,000</u>

Plant Funds

Unexpended	
Accounts payable	10,000
Notes payable	100,000
Bonds payable	400,000
Fund balances	
Restricted	1,000,000
Unrestricted	200,000
Total unexpended	<u>1,710,000</u>

Renewals and replacements

Fund balances	
Restricted	25,000
Unrestricted	235,000
Total renewals and replacements	<u>260,000</u>

Retirement of indebtedness

Fund balances	
Restricted	185,000
Unrestricted	115,000
Total retirement of indebtedness	<u>300,000</u>

Investment in plant

Notes payable	790,000
Bonds payable	2,200,000
Mortgages payable	400,000
Net investment in plant	<u>36,210,000</u>
Total investment in plant	<u>41,600,000</u>
Total plant funds	<u>43,870,000</u>

Agency Funds

Deposits held in custody for others	110,000
Total agency funds	<u>110,000</u>

Figure 2. "Columnar Balance Sheet"

June 30, 19

Sample Educational Institution

(In Thousands of Dollars)	Current Funds		Loan Funds	Endowment & Similar Funds	Annuity & Life Income Funds	Plant Funds	
	Unrestricted	Restricted				Unexpended Replacement	Retirement of Investment In Plant
Assets							
Cash	210	145	30	100	70	275	50
Investments	450	175	100	13,900	5,305	1,285	150
Accounts Receivable	228	68					250
Inventories, Prepaid Expenses, etc.	118	72	550				
Notes Receivable							41,600
Institutional Plant							
Interfund Borrowing - Due From			3			150	5
Total Assets	1,006	460	683	14,000	5,375	1,710	260
Liabilities							
Accounts Payable & Accrued Liability	145	14				10	
Student Deposits	30						
Preferred Revenues	30						
Notes Payable			50			100	
Mortgages Payable						.400	
Bonds Payable					2,155		
Contracts Payable							
Interfund Borrowing - Due To	158						
Total Liabilities	363	14	50		2,155	510	
Fund Balances							
For Current Operations - Unrestricted	643						
For Current Operations - Restricted		446					
Board Designated Restricted to			150	1,000		200	235
Other Than Current Purposes			483	13,000	3,220	1,000	25
Net Investment in Institutional Plant							
Total Fund Balances	643	446	633	14,000	3,220	1,200	260
Total Liabilities & Fund Balances	1,006	460	683	14,000	5,375	1,710	260
							300
							300
							38,210
							38,210
							41,600



The display of fund balances on the "Columnar Balance Sheet" is different from the display on the "Layered Balance Sheet." The "Columnar Balance Sheet" groups similar fund balances as one item and distributes each type of fund balance across the various fund groups. However, the actual fund balances for each fund group are the same in both types of balance sheet formats. The following fund balance items appear in the "Columnar Balance Sheet":

- *For current operations-unrestricted and for current operations-restricted* - These two items represent that portion of the excess of assets over liabilities in the "Current Fund" available for the support of the current operations of the institution.
- *Board designated* - This item includes all unrestricted fund balances (outside the "Current Fund") and, therefore, represents that portion of fund balances designated by the institution's governing board for use in those fund groups.
- *Restricted to other than current purposes* - This item includes all fund balances that have been restricted by the donors for purposes other than the support of current operations.
- *Net investment in institutional plant* - The net investment in plant is the total of the institutional equity in physical plant assets. It is, in short, the institution's "paid for" plant facilities.

STATEMENT USES AND LIMITATIONS

The value of an institutional balance sheet for analytical purposes is most apparent when the user can look at a series of balance sheets for successive years. Such trend information can be more valuable than any particular item on the balance sheet for any one year. In most instances, the balance sheet will be used along with other institutional financial statements. However, there are certain questions that can be answered using primarily balance sheet data. The following questions are illustrative of some possible uses of balance sheet data.

1. What is the institution's liquidity position (i.e., how easily could the institution liquidate its short-term assets if it became necessary to do so in order to cover short-term liabilities)?

Answer. This question is not easy to answer in higher education because of the restrictions placed upon many of the institution's resources. Although certain assets might be short-term in the sense that they can be converted to cash within a year (the usual definition of liquidity), the proceeds resulting from any such conversion may be restricted for a very specific use and not available to meet the short-term liabilities that need to be covered. Therefore, although an estimate of liquidity can be found by comparing such typical short-term assets as *cash*, *investments* (short-term), and *accounts receivable* to such short-term liabilities as *accounts payable* and *student deposits*, the restricted nature of those assets must be analyzed in terms of their relation to particular liabilities before any meaningful measure of liquidity can be determined.

2. What is the extent and the nature of the institution's long-term debt?

Answer. The answer to this question can be found by looking at items such as, *notes payable*, *contracts payable*, *mortgages payable*, *bonds payable*. The nature of the various amounts of debt is shown by the particular fund group in which each portion of the total is reported. However, a more detailed analysis of the specifics of the institution's borrowings is needed in order to fully understand the nature and the extent of the institution's debts. The specifics of these borrowings usually can be found in the "notes" to the institution's financial reports.

Probably the most important information that can be obtained from an institutional balance sheet relates to *fund balances*. A *fund balance* is the difference between the fund group's total assets and its liabilities and represents those institutional resources available for the uses associated with that fund group. The following questions are representative of those that might be asked about an institution's fund balances.

1. What is the extent of those institutional resources available *only* for current operations in succeeding operating periods?

Answer: The item for *current operations-restricted* represents those resources available in succeeding operating periods for certain specific current operations. However, this does not mean that all of these resources are available in the next operating period. Restrictions may have been placed upon a portion of these resources which stipulate that they be used over a period of several years. The item for *current operations-unrestricted* is another set of resources available for current operations. Also, *board designated* funds may be available since the governing board can make the determination as to the use of these funds.

2. What portion of the institution's unrestricted resources have been designated by the institution's governing board for specific purposes? For what purposes were these resources designated?

Answer: The answer to this question can be found by looking at the fund balance item *board designated* on the "Columnar Balance Sheet." Generally the unrestricted fund balances of all fund groups except the "Current Fund" may also be considered designated funds. The specific purpose for which the funds have been designated is indicated by the fund group in which they are reported. *Theoretically*, all designated funds can be redesignated by the governing board, if necessary, for use in the "Current Fund" or in any other fund group. In those cases where the designation is an investment of funds, such as a designation to the "Endowment Fund," this ability to redesignate funds is true in a practical sense as well. However, if the funds have been designated for a specific use, such as the payment of debt in the "Plant Fund," the funds will not necessarily be available for redesignation to another fund group.

3. What is the extent of those institutional funds restricted to uses other than current operations? For what purposes are they restricted?

Answer: The item *restricted to other than current purposes* on the "Columnar Balance Sheet" shows those institutional resources that have been restricted as to use by the donor. The fund group columns in which such resources are reported indicate the type of restriction that has been placed upon them. In the "Layered Balance Sheet" the restricted fund balance of each fund group represents funds which have been restricted by the donor for use in that fund group.

In addition to the questions listed above, the amount of pledges receivable and the size of the endowment relative to current operating funds may be determined using the "Balance Sheet." As described earlier, the "Balance Sheet" ordinarily will be used in conjunction with other institutional financial statements rather than alone, and most questions will not be as simple and straightforward as those described above. However, the answers to most questions, even the more complex ones, will require the same basic information elements described in the answers above and it will be the job of the user to determine which of those elements are needed and how they should be used to answer the tougher questions posed by most analyses.

RELATED DATA CATEGORIES

The categories defined below are those which typically appear on the institutional "Balance Sheet."

Assets

1. *Cash* - Cash on hand, petty cash, and cash in bank accounts, associated with each fund group. This category does not include short-term investments.
2. *Investments* - Marketable securities, real estate, patents, copyrights, royalties, participations, and so forth. Investments purchased and investment received as gifts at the fair market or appraised value at the date of gift, unless there has been an impairment of value not considered to be temporary, are reported in the financial statements at cost. (As a permissible alternative, investments, exclusive of physical plant, may be reported in

the financial statements at current market value or fair value, provided this basis is used for all investments of all funds.) If the institution records investments on the balance sheet at cost, information should be included to show market value. Investments may be categorized further as securities, real estate, and other investments.

- *Securities* - Bonds, notes, preferred stocks, and common stocks.
 - *Real estate* - Real property in which funds are invested for the purpose of producing income (usually a part of the "Endowment Fund"). Such properties may be acquired by gift, purchase, or foreclosure of mortgage notes.
3. *Pledges receivable* - Pledges reported in the "Balance Sheet" which are material and for which an estimated net realizable value can be computed, including the present value of long-term pledges as well as reductions for an allowance for uncollectable pledges. Pledges of gifts, including uncollected subscriptions, subscription notes, and estate notes, should be disclosed in the notes unless they are reported in the financial statements. The notes to the financial statements should disclose the gross amounts by time periods over which the pledges are to be collected as well as related restrictions, if any, as to use.
 4. *Accounts receivable* - All amounts owed the institution, generally on open account, and limited to uncollected amounts of completed sales of goods and services. Governmental appropriations that are subject to release by a governmental officer for institutional use should be shown here and not under *cash*. Accounts receivable are shown at face value less an allowance for doubtful accounts.
 5. *Inventories* - Merchandise for sale including supplies and stocks in stores. Examples of the latter are office supplies, fuel, building supplies, and goods not yet charged as expense but carried in stock in general storerooms for future requisition or sale. Inventories are not charged as expense until used. Merchandise for sale includes such items as inventories of student stores, university presses, and food services.
 6. *Prepaid expenses, etc.* - That portion of operating expenditures properly chargeable in a period subsequent to the date of the "Balance Sheet."
 7. *Notes receivable* - All amounts owed on promissory notes from debtors. Notes receivable for loans should be carried in the "Loan Funds" group at face value less an allowance for doubtful loans. Provision for doubtful loans should be charged to the equity account of the specific loan fund.
 8. *Institutional plant* - The physical property owned by an institution and used for institutional purposes, (i.e., land, buildings, improvements other than buildings, and equipment).
 9. *Interfund borrowing-due from* - The amounts of funds loaned temporarily between fund groups (e.g., unrestricted current funds loaned to the "Plant Fund").

Liabilities

1. *Accounts payable and accrued liability* - Liabilities for goods received and other expenses incurred for which disbursements have not been made as of the date of the report. Payrolls due and unpaid are included in this category in the "Current Fund." Amounts deducted from payrolls and not yet forwarded to proper agencies, such as income taxes withheld, social security taxes, and retirement annuity premiums are shown here.
2. *Student deposits* - Receipts for various purposes which an institution may be required to repay in whole or in part. Examples are deposits for breakage, room rental contracts, keys, library books, and reservations for admission to the institution or to the residence halls.
3. *Deferred revenues* - Payments made to the institution in advance of the reporting period to which they apply for services to be rendered in a subsequent reporting period. Examples are tuition, fees, and room rentals paid in advance of the fiscal period to which they apply.
4. *Notes, mortgages, and bonds payable* - Liabilities for outstanding notes, bonds, and mortgages.
5. *Contracts payable* - The present value of the aggregate liability for annuities payable in the "Annuity Fund" and income payable in the "Life Income Fund" based upon acceptable life expectancy tables. When a gift is received the present value of the annuities payable is credited to the liability account and the remainder to the fund balance. Periodically an adjustment is made between the liability and the fund balance to reflect the recomputation of the liability based on the revised life expectancy.

Fund Balances

1. *Unrestricted current funds balance* - The net accumulation over the years of the excess of unrestricted current funds revenues over current funds expenditures and transfers. This amount is available for future operating purposes or for any other use approved by the governing board of the institution. There will be a negative fund balance if cumulative expenditures and transfers have exceeded revenues.
2. *Restricted current funds balance* - The unexpended balances of funds restricted by donors or other outside agencies to specific operating purposes. These funds originate from income on restricted endowment funds, gifts from donors who have placed limitations on their use, and grants from private or governmental sources specifically for research, training, and so forth. This item on the "Balance Sheet" consists of those restricted funds available for expenditure in future reporting periods.
3. *Loan funds balance* - The fund balance of those institutional resources available for loan purposes only. The fund balance section should display separately the unrestricted and restricted portions of the "Loan Funds" balance. The only unrestricted funds in the "Loan Funds" group are those designated by the governing board to function as loan funds. Since action of the governing board at some future date may require that the funds be returned to the "Current Fund" or transferred to another fund group, the unrestricted fund balance should be shown separately from the restricted fund balance.
4. *Endowment and similar funds balance* - Separate fund balances identified for "Endowment Funds," "Term Endowment Funds," and "Quasi-Endowment Funds." The fund balance of quasi-endowment funds usually is considered to be unrestricted in that it may be transferred between fund groups. However, quasi-endowment funds actually may be restricted as to use within a particular fund group. The balance of term endowment funds cannot be transferred out of this fund group until the agreed upon time period expires. At such a time they may be transferred out of the "Endowment and Similar Funds" group. Term endowment funds also may be either restricted or unrestricted as to use.
5. *Annuity funds balance* - A fund balance existing in the "Annuity Funds" whenever there is an excess of assets over liabilities (which must include an actuarial liability for annuities payable). All fund balances of the "Annuity Fund" should be considered restricted funds.
6. *Life income funds balance* - A fund balance existing whenever there is an excess of assets over liabilities. All fund balances of the "Life Income Fund" should be considered restricted funds.
7. *Unexpended plant funds* - Those unexpended resources that have been set aside for the purchase or construction of physical plant in excess of associated liabilities. Restricted "Plant Fund" balances are shown separately from those unrestricted fund balances that have been designated for plant purposes by the governing board.
8. *Funds for renewal and replacement* - Unexpended resources in the "Plant Funds" subgroup held for the renewal and replacement of physical plant. The fund balance should be subdivided between unrestricted resources designated by the governing board for renewal and replacement purposes and resources restricted to such purposes, including fund balances arising from agreements with outside agencies such as trustees under bond indentures and restricted gifts, grants, and governmental appropriations.
9. *Funds for retirement of indebtedness* - Those resources held for the retirement of, and the interest on, the debt owed on the institution's physical plant. Included are sinking funds established under bond indentures, mortgage amortization payments accumulated but not yet due, and other resources accumulated for interest and debt retirement. Fund balances should be subdivided between those unrestricted resources designated by the governing board for debt retirement purposes and restricted resources.
10. *Net investment in plant* - The total of the institutional equity in physical plant assets; i.e., the institution's "paid for" plant facilities.

6. "STATEMENT OF CHANGES IN FUND BALANCES"

The most important financial information for planning and management purposes is that which describes the dynamics of the institution's finances. The flow of funds into and out of the institution and the activities financed by those funds are of primary importance for planning and management at all levels. The flow of funds for a higher education institution is quite different from that for a business enterprise. As described in chapter 3, the flow of funds *into* the institution is characterized by many quite different sources of funding and by various types and degrees of restrictions as to use. In addition, the timing of these inflows can be either well known and regular (e.g., governmental appropriations) or very unpredictable (e.g., private gifts). Funds flowing *out of* the institution support activities that, in turn, support the attainment of institutional objectives.

In analyzing the flow of funds for an institution the analyst will focus on both the uses of institutional funds and the sources of those funds. An analysis of uses will tell the analyst which activities the institution is supporting and the level of resource support being used for each activity. An analysis of sources will tell the analyst how dependent the institution is upon one particular source of funding, the degree of management flexibility in shifting funds to meet changing needs, and something about the stability of the inflow from those sources.

The "Statement of Changes in Fund Balances" is used by higher education institutions to describe the *total institutional flow* of funds into, out of, and among all the various fund groups.

STATEMENT DESCRIPTION

The format for this statement is essentially one in which the fund groups are shown in the columns and the various flows into, out of, and among fund groups are displayed in rows. The figure below (figure 3) shows the general format used for this financial statement.

Figure 3.--"Statement of Changes in Fund Balances" (general format)

	Current Fund	Loan Fund	Endowment Fund	Annuity & L.I. Fund	Plant Fund	Total
Additions						
Deductions						
Transfers						
Summary						

The funds flowing *into* the various fund groups are shown as *additions*, the funds flowing *out of* each group as *deductions*, and the flow *among* fund groups as *transfers*. Usually a "Statement of Changes in Fund Balances" also includes a *fund balance - beginning of year* and a *fund balance - end of year* showing the net effect of these flows for each fund group. A detailed "Statement of Changes in Fund Balances" is shown in figure 4.

NOTE. Figure 4 represents a slightly different version of the "Statement of Changes in Fund Balances" from that shown as exhibit B in the CUBA '74 Manual. The HEFM version shows the details of the

Figure 4. "Statement of Changes in Fund Balances" (detailed format)

Year Ended June 30, 19

Sample Educational Institution	Current Funds		Loan Funds	Endowment & Similar Funds	Annuity & Life Income Funds	Plant Funds	
	Unrestricted	Restricted				Unexpended Replacement	Retire. of Investment in Plant
(Figures in thousands)							
Additions							
Tuition & Fees	2,600						
Governmental Appropriations	1,300					50	
Local							
State							
Federal							
Governmental Grants & Contracts	35	500					
State							
Federal							
Private Gifts, Grants, & Contracts	850	370	100	1,500	800	115	65
Unrestricted							
Restricted	325		12	10		5	5
Net Realized Gains on Sale of Investments		224		109			
Unrestricted				50			
Restricted			4			10	
Sales & Services of Auxiliary Enterprises	2,200						
Other Additions to Plant Facilities							
Retirement of Indebtedness (material)	230		25	10		50	3
Other							
Total Additions	7,540	1,094	141	1,679	800	230	78
Total	4,400	1,014				10	1,785
Deductions							
Current fund Expenditures	1,830						
Educational & General							
Noneducational & General (Including Auxiliary Ent.)							
Loan Cancellations & Write-offs			1				
Expenditures for Plant Facilities						1,200	
Principal							220
Interest							190
Debt Service							
Expired Term Endowment				90			
Disposal of Plant Facilities (material)		55	11		85		
Other							
Total Deductions	6,236	1,069	12	90	85	1,200	411
Total	(340)					340	
Mandatory Transfers Into/(Out of)	170						
Loan Fund Matching Grant	(2)		2				
Other (Itemize if material)							
Nonmandatory Transfers Into/(Out of)	40			(40)			
Designation of Unres. Funds	(650)		50	550			
Other (Itemize if material)							
Total Transfers Into/(Out of)	(1,122)		52	510		50	340
Net Increase/(Decrease) for the Year	188	25	181	2,099	715	(920)	7
Fund Balance - Beginning of Year	455	421	502	11,981	2,505	2,120	293
Fund Balance - End of Year	643	446	683	14,000	3,220	1,200	300
							38,210

sources of unrestricted "Current Funds" and also aggregates certain categories in the CUBA '74 statement under the heading "Other." However, the HEFM example and the CUBA '74 Manual example are consistent.

STATEMENT USES AND LIMITATIONS

The "Statement of Changes in Fund Balances" portrays the flow of funds for the entire institution, it should be used whenever data requiring an institutional focus are needed. The following questions are illustrative of some possible uses of data from the "Statement of Changes in Fund Balances":

1. What are the sources of funds received by the institution which are available for the support of current operations?

Answer. The answer to this question can be found by looking at those sources itemized (in rows) in the *additions* section of the "Statement of Changes in Fund Balances." When using the "Statement of Changes in Fund Balances" the reader should clearly understand the difference between *additions* and *revenues*. The two terms are identical when referring to unrestricted funds. However, when used in reference to restricted funds, *revenues* means only those funds expended in accordance with their restrictions, while *additions* includes all restricted monies received during the reporting period (whether expended or not). Those monies received and available for *current operating purposes* are shown in the two columns, "Current Funds-Unrestricted" and "Current Funds-Restricted." In figure 4, \$7,540,000 of unrestricted funds was received while \$1,094,000 was received subject to the current operations restriction.

2. What funds were received during the reporting period specifically for (1) the support of student, faculty, and staff loans, (2) the construction of institutional plant, and (3) additions to the institution's endowment fund?

Answer. The respective answers to each of these questions can be found by looking at the *additions* section (1) in the "Loan Funds" column, (2) in the "Unexpended Plant Fund" column, and (3) in the "Endowment and Similar Funds" column. In figure 4, the answers are (1) \$141,000, (2) \$230,000, and (3) \$1,679,000. The amounts shown in these columns represent funds restricted by the donor to those respective fund groups. Once again, these amounts were received during the reporting period but they were not necessarily expended in that period. All *unrestricted additions* (even if they are later designated for use in one of these three fund groups) are shown in the *additions* section in the column "Current Funds-Unrestricted."

3. How much money was expended during the reporting period for current operating purposes?

Answer. In the *deductions* section, the two row items for *Current Fund expenditures* in the "Current Fund" columns provide the answer to this question. The deduction shown in the column "Current Fund-Unrestricted" is the amount of unrestricted monies used for current operations (in figure 4 the amount is \$6,230,000) and the deduction shown in the "Current Fund-Restricted" column is the amount of restricted funds used for current purposes (in figure 4 the amount is \$1,014,000). (Note that these amounts do not include transfers out of the "Current Fund.")

4. How much was expended during the reporting period for the construction of plant facilities?

Answer. The amount expended from the "Plant Fund" for new facilities is the deduction *expended for plant facilities* in the column "Plant Funds-Unexpended" (in figure 4 the amount is \$1,200,000). The value of the new institutional plant will be shown also as the item *additions to plant facilities* in the column "Plant Funds-Investment in Plant." It should be noted that while major additions to the institution's investment in plant usually are made from the unexpended "Plant Fund," "Current Fund" expenditures also may result in increases in plant investment.

5. What other kinds of transactions occurred during the reporting period that resulted in the use of institutional funds?

Answer: Several other items are shown in the *deductions* section that result in a use of funds within one of the fund groups. In most cases such deductions are characteristic of the fund group itself (for example, the deduction *debt service* in the "Plant Funds-Retirement of Indebtedness" subgroup). (NOTE: It should be emphasized that the total deductions for a particular fund group will seldom be equal to the total additions to that same fund group. Transfers also must be taken into account before a net change—either positive or negative—can be determined for any fund group.)

6. What is the extent and nature of the flow of funds among the institution's various fund groups?

Answer: The *transfers* section describes the net movement of funds among the institution's fund groups. A transfer is shown as a positive amount in the recipient fund group's column (a flow of funds *into* the fund group) and as a negative amount, in parentheses, in the donor fund group's column (a flow of funds *out of* the fund group).

7. What, for each fund group, is the net result of the flow of funds into, out of, and among fund groups?

Answer: The row item *net increase/decrease for the year* answers this question for each fund group. It represents the net result of all additions, deductions, and transfers within each fund group—a net addition to the fund group is shown as a positive figure and a net deduction as a negative figure, in parentheses. A summary of the effect of this net increase or decrease on each group's fund balance is shown in the two row items, *fund balance-beginning of year* and *fund balance-end of year*.

The "Statement of Changes in Fund Balances" provides only a *summary* picture of the actual flow of funds for all of the individual fund groups. A supplementary statement is needed if the user wants to obtain more detailed information about the flows associated with any particular fund group. One such supplementary statement for the "Current Fund" is described in chapter 7.

RELATED DATA CATEGORIES

The categories below are those which appear on the "Statement of Changes in Fund Balances."

Additions

- The term *additions* applies to monies added to a fund group during the reporting period, including additions to the "Current Fund," whether reported as revenues or not. The terms *additions* and *revenues* are distinct and have quite different meanings in fund accounting. The term *revenues* is generally applied only to the "Current Fund" and includes (1) all unrestricted monies received for the "Current Fund" during the reporting period and (2) that portion of restricted funds which are expended during the reporting period, whether or not they were received during the reporting period. Therefore, for unrestricted funds *additions* and *revenues* are the same, whereas for restricted funds they are different.

The definitions described below for the *additions* categories of the "Statement of Changes in Fund Balance" are quite similar to the definitions given in the next chapter for "Current Fund" *revenues*. While they appear to be the same, the reader should be aware that they are different when they are applied to restricted funds in the "Current Fund."

1. *Tuition and fees* - All tuition and fees assessed (net of refunds) against students for educational purposes. Charges for room, board, and other services rendered by auxiliary enterprises are not included in this category, but are shown as "Sales and Services of Auxiliary Enterprises."
2. *Governmental appropriations* - Those funds for current operations received from, or made available by,

governmental sources through legislative acts. This category includes governmental appropriations made from tax funds and Federal revenue sharing funds and, therefore, does not include institutional fees and other income reappropriated by the State legislature to the institution. Such amounts should be deducted from this category and reported in the appropriate categories.

3. *Governmental grants and contracts* - Funds received from, or made available by, government agencies for specific projects or programs, including student aid. Examples are research projects, training programs, training and instructional institutes, and similar activities for which financial support is received under the terms of a governmental grant or contract.
4. *Private gifts, grants, and contracts* - All amounts received from individuals or nongovernmental organizations. This category also includes those monies resulting from the purchase of goods or services from the institution on a contractual basis by individuals or nongovernmental agencies, exclusive of those normally classified as sales by various educational or support departments.
5. *Investment income* - Unrestricted income of endowment and similar funds, restricted income of endowment and similar funds (whether or not the income is expended during the reporting period), and income from funds held in trust by others under irrevocable trusts. This category does not include the net capital gains resulting from the sale of investments (which would be included in *net realized gains on sale of investments*) nor does it include any portion of the gain on investments used for current operations under the "total return" concept.
6. *Net realized gains on sale of investments* - All net additions to particular fund groups resulting from the sale of the assets of the fund group for an amount greater than the carrying value of those assets (either cost or fair market value). Net losses should be shown as deductions.
7. *Sales and services of educational activities* - All funds derived from the sale of goods or services that are incidental to the conduct of instruction, research, or public service. For reporting purposes, the type of service takes precedence over the form of the agreement by which those services are rendered. Therefore, the incidental revenues of educational departments would be included in this category even if they should be performed under contract. Monies derived from the sale of goods and services by auxiliary enterprises and hospitals would not be included in this category.
8. *Sales and services of auxiliary enterprises* - All monies generated by the auxiliary operations of the institution. An auxiliary enterprise is an entity that exists to furnish goods or services to students, faculty, or staff and that charges a fee directly related to, although not necessarily equal to, the cost of the service. The general public may be served incidentally by some auxiliary enterprises. Auxiliary enterprises generally include residence halls, food services, intercollegiate athletics (if operated as essentially self-supporting operations), college stores and unions, etc.
9. *Sales and services of hospitals* - All funds directly attributable to the operation of the hospital. This category does not, therefore, include those funds derived from grants, gifts, appropriations, or endowment income restricted for hospital operations.
10. *Other* - All other additions to fund groups not included in one of the categories described above. Any additions that are material should be itemized. This category also includes earnings on the short-term investments of the "Current Fund."

Deductions

- The term *deductions* includes all funds flowing out of any of the fund groups during the reporting period, except those funds leaving a fund group as the result of a transfer of funds.
- 1. *Current fund expenditures* - All expenditures from both the "Current Funds-Unrestricted" and the "Current Funds-Restricted" categories. A more detailed breakdown of this figure is shown in the "Statement of Current Funds Revenues, Expenditures, and Other Changes."
- 2. *Loan cancellations and write-offs* - Those amounts deducted from the "Loan Fund" to provide for uncollectable loans.
- 3. *Expenditures for plant facilities* - Capitalized disbursements made from the "Plant Fund-Unexpended" subgroup for newly acquired or constructed plant facilities, as well as capitalized disbursements from the "Plant Fund-Renewal and Replacement" subgroup for renovations to existing plant.

4. *Debt service* - All deductions from the "Plant Fund-Retirement of Indebtedness" subgroup for the purpose of servicing the institution's debt on its physical plant. Physical plant obligations are generally the only type of long-term debt most institutions have, although some short-term debt also might be incurred in order to meet current operating needs. If debt is incurred in any of the other fund groups, all payments made to service this debt would also be included in this category. This category does not, however, include transfers made from one fund group for the purposes of satisfying debt requirements in another group—these would be included in the transfers section.
5. *Other* - All other deductions from fund groups not included in one of the categories described above. Any deductions that are material should be itemized. Examples of other deductions include the disposal of plant facilities (a deduction from the "Investment in Plant" subgroup), administrative and collection costs in the "Loan Fund," and uncapitalized disbursements from unexpended "Plant Funds."

Transfers

- The term *transfers* includes all flows of funds among the various fund groups during the reporting period. Transfers are self-balancing across the columns of the "Statement of Changes in Fund Balances." In other words, every transfer results in an equal addition (shown as a positive figure in the receiving fund group column) and deduction (shown as a negative figure in parentheses in the donor fund group column). Therefore, the net result always will be zero.

1. *Mandatory transfers into/(out of)* - All transfers made to fulfill a binding legal obligation of the institution.

- *Debt services* - All mandatory provisions made to satisfy debt obligations on academic buildings and auxiliary enterprise operations.
- *Renewal and replacement* - All mandatory provisions made for the renovation of institutional plant.
- *Loan fund matching grant* - All mandatory transfers of institutional funds to the "Loan Fund" as required in order to match outside gifts or grants, usually from the U.S. Government, for loan purposes.
- *Other* - All mandatory transfers not included in one of the above categories. Other mandatory transfers that are material should be itemized.

2. *Nonmandatory transfers into/(out of)* - All transfers made from one fund group to another at the discretion of the institution's governing board.

- *Distribution of capital gains* - That portion of the capital gains on the institution's investments used by the institution, usually for current operating purposes. Such distributions are in accordance with the "total return" concept. A more detailed discussion of this concept is included in *Audits of Colleges and Universities*, pp. 37-42.
- *Designation of unrestricted funds* - Those unrestricted funds designated (and therefore transferred) for a specific purpose in another fund group by the institution's governing board. Although such designations usually involve unrestricted funds of the "Current Fund," a redesignation of funds previously designated for a different purpose may be made and the subsequent transfer recorded in this category.
- *Other* - All nonmandatory transfers not included in one of the above categories. Other nonmandatory transfers should be itemized when material.

Summary Data

- The final section of the "Statement of Changes in Fund Balances" summarizes the results of all of the flows into, out of, and among the various fund groups. These figures can be related directly to those shown for each fund group in the "Balance Sheet."

1. *Net increase/(decrease) for the year* - The net increase (shown as a positive figure) or decrease (shown as a negative figure in parentheses) of the fund balance for each fund group. The figure shown in this category is determined for each fund group by adding the figures for *total additions* and net *transfers into* and subtracting the figures for *total deductions* and net *transfers out of*.
2. *Fund balance-beginning of year* - The total of the fund balance *prior* to any of the flows additions, deductions, and transfers described in the statement for that fund group.
3. *Fund balance-end of year* - This is a total for the fund balance *after* all of the additions, deductions, and transfers described in the statement. It is determined by adding (or subtracting) the *net increase/(decrease) for the year* and *fund balance-beginning of year*.

7. "STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES, AND OTHER CHANGES"

It is often important for the planner or manager to have more information about the flows into and out of a particular fund group than it is possible to obtain from the "Statement of Changes in Fund Balances." This need for more detailed data about *one* fund group often results in the preparation of supplementary statements to the "Statement of Changes in Fund Balances." Supplementary statements can be prepared for any of the fund groups; however, the "Current Fund" is the one for which such a statement is usually reported. There is a generally accepted format and generally recommended data categories for such a "Current Fund" statement—it is known as the "Statement of Current Funds Revenues, Expenditures, and Other Changes."

STATEMENT DESCRIPTION

The "Statement of Current Funds Revenues, Expenditures, and Other Changes" represents a detailed breakdown of the "Current Fund" column in the "Statement of Changes in Fund Balances." (Figure 5 illustrates this relationship between the latter and the "Statement of Current Funds Revenues, Expenditures, and Other Changes").

Figure 5.—Relationship between the "Statement of Changes in Fund Balances" and the "Statement of Current Funds Revenues, Expenditures, and Other Changes"

Statement of Changes in Fund Balances	Current Fund	Loan Fund	Endowment Fund	Annuity & L.I. Fund	Plant Fund	Total
Additions						
Deductions						
Transfers						
Summary						

↖ Statement of Current Funds Revenues,
Expenditures, and Other Changes

The similarities and differences between the "Statement of Changes in Fund Balances" (the primary statement) and the "Statement of Current Funds Revenues, Expenditures, and Other Changes" are listed below:

1. Unrestricted current fund *additions* will generally be shown as a single figure under "Current Funds-Unrestricted" in the "Statement of Changes in Fund Balances." In the supplementary statement the individual sources of unrestricted "Current Fund" revenues are detailed. (NOTE: The "Statement of Changes in Fund Balances" described in the HEFM shows the sources of unrestricted "Current Fund" revenues but this presentation, while perfectly acceptable, differs from the "Statement of Changes in Fund Balances" format recommended in CUBA '74 and the Audit Guide).
2. Unrestricted current fund revenues are reported when earned because they are available for any use as soon as

they are earned. Therefore the figure shown for unrestricted current fund revenues will be the same in both the "Statement of Changes in Fund Balances" and the "Statement of Current Funds Revenues, Expenditures, and Other Changes."

3. The primary differences between the "Statement of Changes in Fund Balances" and the "Statement of Current Funds Revenues, Expenditures, and Other Changes" is that the former includes *additions* to the restricted "Current Fund" while the supplementary statement includes restricted "Current Fund" *revenues*. This means that the user of the former will be looking at those restricted "Current Funds" *that were received* during the reporting period whether they were expended or not during that period. Meanwhile the user of the supplementary statement will be looking only at those restricted "Current Funds" *that were expended* during the reporting period. As a result, the figures shown in the restricted "Current Fund" column of the "Statement of Changes in Fund Balances" for additions will usually differ from the figures shown in the supplementary statement for restricted "Current Fund" revenues.
4. In the "Statement of Changes in Fund Balances," "Current Fund" expenditures will be shown generally as the sum of two items—*educational and general expenditures* and *auxiliary enterprises expenditures*. In the supplementary statement, these expenditures will be detailed by the functional categories in which they were expended. However, the totals will be the same in both statements.
5. Mandatory transfers generally will not be shown in as much detail in the "Statement of Changes in Fund Balances" as in the supplementary statement, but the totals will be the same in both statements.
6. The summary information about the "Current Fund" (i.e., *net increase/(decrease) for the year, fund balance-beginning of year and fund balance-end of year*) should be the same on both statements.

STATEMENT USES AND LIMITATIONS

The reason the "Statement of Current Funds Revenues, Expenditures, and Other Changes" is considered as important as it is by most users is that the "Current Fund" is used to report on many of the activities about which planners and managers are most concerned. The "Current Fund" is used to report on those activities associated with the institution's primary objectives (instruction, research, and public service) and those activities carried out in support of these primary activities (academic support, student services, operation and maintenance of plant, institutional support, and scholarships and fellowships), as well as auxiliary enterprises. Therefore, an analysis of this statement will provide insight into the financing of the institution's objective-oriented activities.

An analysis of this statement should include an analysis of the sources of "Current Fund" monies and the uses of those monies. A study of the uses of "Current Fund" expenditures and transfers will tell the analyst which primary and support activities the institution funded and the level of funding used for each activity. An analysis of the sources of "Current Fund" monies will tell the analyst where the funds were obtained that were used to finance the institution's primary and support activities. In addition, "Current Fund" statements will often include the prior year's figure for each item so that the reader can see how it differs from year to year.

The various uses and limitations of the "Statement of Current Funds Revenues, Expenditures, and Other Changes" are illustrated through the following question and answers, all of which apply to the one reporting period portrayed by figure 6 (see page 36).

1. What was the amount of unrestricted "Current Funds" earned from tuition and fees during the reporting period?

Answer: Tuition and fees are almost always unrestricted "Current Fund" revenue, the only exception being certain restricted student fees. Total tuition and fees earned for this period was \$2,600,000.

2. What was the amount of restricted Federal grants and contracts received during the reporting period?

Answer. It is impossible to answer this question using the "Statement of Current Funds Revenues, Expenditures, and Other Changes." The amount of restricted funds received can be found only on the "Statement of Changes in Fund Balances." The figure shown in figure 6 for *Federal grants and contracts* (\$375,000) represents those restricted Federal grant and contract monies that were expended from the sum total of such monies received in all reporting periods.

3. What amount of unrestricted "Current Funds" was expended for instruction during the reporting period? How much was expended for scholarships and fellowships?

Answer: Expenditures are typically categorized in a set of functional categories. The categories shown in figure 6 are the functional categories that are widely accepted in higher education for the classification of expenditure data. These categories can also be broken down into a set of subcategories if further detail is needed. In this example, expenditures for *instruction* were \$2,960,000, while expenditures for *scholarships and fellowships* totaled \$90,000.

4. How much was transferred out of the "Current Fund" to fulfill binding legal requirements for matching grants in the loan fund?

Answer: When users want to know about transfers made to fulfill binding legal requirements they should look to the section describing mandatory transfers. In this case the mandatory transfer made for matching grants in the loan fund totaled \$2,000.

5. What does the item *excess of restricted receipts over transfers to revenues* in figure 6 tell the user?

Answer: This item is part of the section of the statement used to summarize nonmandatory transfers of the "Current Fund" and changes in the fund balance of the "Current Fund." The item *excess of restricted receipts over transfers to revenues* tells the user how much of an excess of restricted funds was received during the period over what was expended during the period. This excess of receipts over expenditures results in an addition to the fund balance of the "Current Fund." In this example, the addition resulting from an excess of restricted receipts over expenditures is \$45,000 while the net increase in the total "Current Fund" fund balance is \$213,000. The next increase (or decrease) is calculated as a total of *revenues plus transfers in minus expenditures and transfers out*.

RELATED DATA CATEGORIES

The following categories are those that are generally accepted in higher education for classifying and reporting "Current Fund" revenue information by source. They are the same revenue categories recommended in *Audits of Colleges and Universities* (AICPA: 1973, amended 1974) and *College and University Business Administration—Administrative Service* (NACUBO: 1974).

It should be noted that these categories are also the source categories described in the previous chapter for the *additions* in the "Statement of Changes in Fund Balances." Note the exactness of terminology: *additions* to restricted funds are reported on the "Statement of Changes in Fund Balances" as they are received. *Revenues* from restricted funds are reported on the "Statement of Current Funds Revenues, Expenditures, and Other Changes" to the extent they are used.

Revenues and transfers in

Tuition and fees—All tuition and fees assessed (net of refunds) against students for current operating purposes. Tuition and fees remissions or exemptions should be assessed and reported as revenue even though there is no intention of collecting from the student. An amount equal to such remissions or exemptions should be reflected as expenditures and classified in the category *scholarships and fellowships* (if that is the purpose of the exemption) or classified as staff benefits in the appropriate expenditure category (if the exemption is made in compliance with a formalized policy granting exemptions to relatives of the institution's staff or the staff itself).

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

If the assignment of student fees to debt service, renewals and replacements, or unexpended plant funds is an administrative action only, or is subject to change by the governing board, then such fees should be reported as unrestricted, "Current Funds" revenues and included in this category. Pledged revenue under bond indenture

EDUCATION,

Figure 6.--"Statement of Current Funds Revenues, Expenditures, and Other Changes"

Sample Educational Institution

Year Ended June 30, 19__

	Unrestricted	Current Year Restricted	Total	Prior Year Total
Revenues.				
Tuition and fees.....	\$2,600,000		\$2,600,000	\$2,300,000
Federal appropriations	500,000		500,000	500,000
State appropriations	700,000		700,000	700,000
Local appropriations	100,000		100,000	100,000
Federal grants and contracts.....	20,000	\$ 375,000	395,000	350,000
State grants and contracts.....	10,000	25,000	35,000	200,000
Local grants and contracts.....	5,000	25,000	30,000	45,000
Private gifts, grants, and contracts.....	850,000	380,000	1,230,000	-1,190,000
Endowment income	325,000	209,000	534,000	500,000
Sales and services of educational departments.....	190,000		190,000	155,000
Sales and services of auxiliary enterprises.....	2,200,000		2,200,000	2,100,000
Other sources (if any).....	40,000		40,000	
Total current revenues	<u>7,540,000</u>	<u>1,014,000</u>	<u>8,554,000</u>	<u>8,180,000</u>

Expenditures and mandatory transfers

- Educational and general				
Instruction	2,960,000	489,000	3,449,000	3,300,000
Research	100,000	400,000	500,000	650,000
Public service	130,000	25,000	155,000	175,000
Academic support	250,000		250,000	225,000
Student services	200,000		200,000	195,000
Institutional support	450,000		450,000	445,000
Operation and maintenance of plant.....	220,000		220,000	200,000
Scholarships and fellowships	90,000	100,000	190,000	180,000
Educational and general expenditures.....	<u>4,400,000</u>	<u>1,014,000</u>	<u>5,414,000</u>	<u>5,370,000</u>
Mandatory transfers for:				
Principal and interest.....	90,000		90,000	50,000
Renewals and replacements.....	130,000		100,000	80,000
Loan fund matching grants	2,000		2,000	
Total educational and general.....	<u>4,592,000</u>	<u>1,014,000</u>	<u>5,606,000</u>	<u>5,500,000</u>

Auxiliary enterprises				
Expenditures	1,830,000	1,830,000	1,830,000	1,730,000
Mandatory transfers for:				
Principal and interest	250,000	250,000	250,000	250,000
Renewals and replacements	70,000	70,000	70,000	70,000
Total auxiliary enterprises	2,150,000	2,150,000	2,150,000	2,050,000
Total expenditures and mandatory transfers	6,742,000	7,736,000	7,736,000	7,550,000

Other transfers and additions/(deductions)

Excess of restricted receipts over transfers to revenues	45,000	45,000	45,000	40,000
Refunded to grantors	(20,000)	(20,000)	(20,000)	(510,000)
Unrestricted gifts allocated to other funds	(650,000)	(650,000)	(650,000)	(650,000)
Portion of quasi-entitlement gains appropriated	40,000	40,000	40,000	
Net increase in fund balances	188,000	213,000	213,000	160,000

*From College and University Business Administration—Administrative Service, National Association of College and University Business Officers, 1974, Section 5:7, pp. 2-3.

agreements should not be reported as additions to "Plant Funds," but should be reported as unrestricted "Current Funds" revenues. Monies from fees on which there are binding external-restrictions because they have been specifically assessed for debt service on institutional plant, for renewals and replacements of plant, or for expansion of facilities, should not be reported under this classification, but should be reported as direct additions to "Plant Funds," since such fees are not legally available for current operating purposes.

Revenues from tuition and fees for an academic term, such as a summer-session, conducted over a fiscal year end should be reported totally within the fiscal year in which the program is predominantly conducted. The revenues and expenditures for any summer session should be reported in the same fiscal year. This procedure for reporting the revenues of summer sessions is an allowable exception to reporting revenues on an accrual basis. All other revenues should be reported when earned.

Charges for room, board, and other services rendered by auxiliary enterprises are not included in this category but should be classified as *sales and services of auxiliary enterprises*. If an all-inclusive fee for tuition, room, and board is charged, a reasonable allocation should be made between the categories *tuition and fees* and *sales and services of auxiliary enterprises*.

Fees assessed for student health services that are operated as a service to the student body rather than as an auxiliary enterprise would be included in this category.

Governmental appropriations - Federal; governmental appropriations - State; governmental appropriations - local—Those monies received from or made available to an institution through acts of a legislative body, except governmental grants or contracts. These three categories include all unrestricted appropriations and all restricted appropriations to the extent expended for current operations.

Funds disbursed for the account of the institution by a governmental agency, such as payments into a State retirement system on behalf of the institution, would be included in these categories.

These categories include only governmental appropriations made from tax levy funds, including those taxes levied directly by the institution under authority granted by the legislature or constitution, Federal land-grant appropriations, and Federal revenue sharing funds. They do not include institutional fees and other income reappropriated by the legislature to the institution. Tuition and fees collected by the institution and returned to the institution in the form of appropriations (i.e., reappropriated tuition and fees) would have to be subtracted as they already appear as tuition and fees.

Governmental appropriations should be categorized by the governmental level (Federal, State, or local) of the legislative body funding the appropriation. The following criterion should be used in determining which legislative level is the funder:

The funder level is the level of that agency making the decision that the monies will be appropriated for the particular purpose for which they are ultimately expended.

For example, if the Federal Government stipulates a specific use for particular monies and those monies subsequently are only administered by the State, the funds would be classified as Federal monies. However, if the Federal Government distributes funds to the State for unspecified general purposes (e.g., general revenue sharing) and the State then appropriates all of a portion and the State then appropriates all or a portion of those monies to the institution, and the funds received by the institution should be classified as State rather than Federal monies.

The determination of whether a particular governmental appropriation should be classified as restricted or unrestricted should be based upon the ability of the institution to effect a change in the intended use of the funds during the reporting period, should circumstances require. If a change in the intended use of the funds can be made without having to go through the legislative process, the funds should be considered unrestricted. State general fund appropriations should be considered unrestricted funds unless the legislation places restrictions on their use which are so specific that they substantially reduce the institution's flexibility in its financial operations. Where an intermediate group exists, if a change in restriction needs to be made and it can be made by the intermediate body without having to go back through the legislative process, the funds appropriated should be considered unrestricted.

Governmental grants and contracts - Federal, government grants and contracts - State, governmental grants and contracts local Revenues from governmental agencies which are received or made available for specific

projects or programs. It is assumed that in the case of a grant or contract, the legislative body makes appropriations to a governmental agency, which in turn enters into contracts with, or makes grants to, individual institutions. Examples are research projects, training programs, and similar activities for which amounts are received or expenditures are reimbursable under the terms of a government grant or contract.

Governmental grants and contracts should be categorized by the governmental level (Federal, State, or local) of the agency providing the funds to the institution. The following criterion should be used in determining which governmental level is the funder:

The funder level is the level of that agency that makes the decision that the contract will be let, or the grant made, to the institution for a particular purpose.

For example, if a Federal agency stipulates a specific use for particular monies and those monies are only administered by State agencies, the funds would be classified as Federal monies.

Amounts equal to direct costs incurred should be recorded as charges against current restricted funds and reported as restricted "Current Funds" revenues. Related indirect costs recovered should be reported as unrestricted revenues.

Private gifts, grants, and contracts—Amounts received from individuals or nongovernmental organizations including private gifts and grants and private contracts. Private gifts and grants include those monies received from private donors for which no legal consideration is involved (i.e., no specific goods or services must be provided to the donor in return for the monies). Private contracts include those monies received for which specific goods and services must be provided to the funder as stipulation for receipt of the funds. This category includes all unrestricted gifts, grants, and bequests as well as all restricted gifts, grants, and contracts to the extent that the monies are expended for current operations.

Only those revenues derived from the provision of goods or services directly related to instruction, research, or public service are included in the category *private gifts, grants, and contracts*. Revenues derived from the sale of goods or services incidental to the conduct of instruction, research, or public service should be shown as *sales and services of educational departments*.

Income from funds held in revocable trusts or distributable by direction of the trustees of such trusts should be reported under this classification. This category does not include revenues derived from contracts for activities not related to the primary missions of the institution (e.g., land rental and utility services). But monies received as a result of gifts, grants, or contracts from a foreign government would be included in this category.

Amounts equal to direct costs incurred should be recorded as charges against current restricted funds and reported as restricted "Current Funds" revenues. Related indirect costs recovered should be reported as unrestricted revenues.

When the performance of donated services is significant for an institution, the value of donated services should be included in this category. The value of donated services should be determined by relating such services to equivalent salaries and wages (including the normal staff benefits, such as group insurance and retirements benefits) for similarly ranked personnel in the same institution or similar institutions. This gross amount should be reduced by the amount of maintenance, living costs, and personal expenses whenever such expenses are incurred on behalf of the contributing personnel (e.g., in institutions operated by religious groups). An imputed value for donated services should be recorded in this category only if the following circumstances exist:

1. The amount of such donated services is significant when compared to the total revenues for the reporting entity.
2. The services performed are a normal part of the institution's programs or supporting services and would otherwise be performed by salaried personnel.
3. The organization exercises control over the employment and duties of the donors of the services.
4. The organization has a clearly measurable basis for determining the value of such services.

In reporting a figure for *private gifts, grants, and contracts*, that portion of the total which is an amount imputed to donated services should be clearly identified and appropriately noted in the financial statements of the institution.

Endowment income Unrestricted income of endowment and similar funds, restricted income of endowment and similar funds to the extent expended for current operating purposes, and income from funds held in trust by others under irrevocable trusts.

The unrestricted income from endowment and similar funds credited to revenues should be the total ordinary income earned (or yield) on the investments of these funds.

Income from investments of endowment and similar funds does not include capital gains and losses, since such gains and losses are accounted for in the "Endowment and Similar Funds" group. If a portion of the gains of endowment or quasi-endowment funds investments is utilized for current operating purposes, the portion so utilized should be reported as a transfer rather than as revenue.

Income from funds held in trust by others under irrevocable trusts should be separately identified under this heading.

Sales and services of educational departments—Revenues derived from the sales of goods or services that are incidental to the conduct of instruction, research, or public service. Examples of such revenues are film rentals, scientific and literary publications, testing services, university presses, and dairy products. For revenue reporting purposes, the type of service rendered takes precedence over the form of the agreement by which those services are rendered. Therefore, the incidental revenues of educational departments would not be included in the category *private gifts, grants, and contracts*, even if they should be performed under contract.

If service to the students rather than training and instruction is the primary purpose of the activities which create the revenue, they should be classified as *sales and services of auxiliary enterprises*.

This category does not include the revenues generated by hospitals operated by the institution. These revenues should be classified as *sales and services of hospitals*. However, revenues derived from health clinics that are not part of a hospital, excluding those that are a part of the student health services program, should be reported in this category.

Sales and services of auxiliary enterprises—All revenues generated by the auxiliary enterprises operations of the institution. An auxiliary enterprise is an entity which exists to furnish goods or services to students, faculty, or staff and which charges a fee that is directly related, although not necessarily equal, to the cost of the service. The general public may be incidentally served by some auxiliary enterprises. Auxiliary enterprises include residence halls, food services, student health services, intercollegiate athletics (if operated as essentially self-supporting operations), college theaters, college stores, and other services, such as barber shops, movie houses, etc.

This category does not include revenues received in the form of grants, gifts, or endowment income restricted for auxiliary enterprises, but is limited to monies derived directly from the operation of the auxiliary enterprises themselves.

Sales and services of hospitals—The revenues (net of discounts, allowances, and provision for doubtful accounts) of a hospital operated by the institution. It includes revenue from daily patient services (medical, surgical, pediatrics, intensive care, etc.), revenue from nursing services (operating room, recovery room, etc.), and revenue from other professional services (laboratories, blood bank, etc.). It does not include revenue for research and other grants, gifts, appropriations, or endowment income restricted for hospital operations, but is limited to monies that are directly attributable to the operation of the hospital. Revenues of health clinics that are part of the hospital should be included in this category, unless such clinics are part of the student health services program.

Other sources—All items of revenue not covered elsewhere. Examples are expired term endowment, interest income and gains (net of losses) from investments of unrestricted current funds. This category also includes revenues resulting from the sales and services of internal service departments to persons or agencies external to the institution (such as miscellaneous rentals and the sale of computer time).

Independent operations All revenues associated with operations independent of or unrelated to the primary missions of the institution (instruction, research, public service) although they may indirectly contribute to the enhancement of these programs. This category generally includes only those revenues associated with major federally funded research laboratories. Such revenues include not only those derived from sales and services of such

operations, but all other revenue for research and other grants, gifts, or appropriations restricted to these operations. This category does not include the net profit (or loss) from operations owned and managed as investments of the institution's endowment funds.

Transfers in—Funds transferred into the "Current Fund." *Transfers in* do not represent new resources for the institution but they often represent resources which are available for the first time due to the expiration of an agreement prohibiting their use prior to a certain date or subsequent to a particular event.

The following are examples of *transfers in*:

- *Expired term endowment* - Funds that are transferred to the "Current Fund" from term endowment funds. A term endowment stipulates that the principal must be kept intact, except that upon the passage of a stated period of time or the occurrence of a particular event all or part of the principal may be expended. In this case, the conditions of the term endowment agreement are met and the funds are transferred into the "Current Fund" and are available for use.
- *Termination of annuity agreement*—The transfer of principal of the "Annuity Fund" to the fund group specified by the originator, upon the termination of an annuity agreement, or in the absence of such a restriction, to unrestricted "Current Funds" revenues.
- *Gains utilized on endowment*—The use of a portion of the gains of endowment or quasi-endowment funds investments for current operating purposes. Under the "total return" concept of reporting endowment earnings, the portion that is utilized is reported as a *transfer in* rather than as a "Current Fund" revenue.
- *Redesignation of funds*—The redesignation for use in the "Current Fund" of unrestricted funds which have been previously designated by the governing board for use in one of the other fund groups. Such a redesignation of funds should be reported as a *transfer in*.

Expenditures and mandatory transfers

The following categories are those that are generally accepted in higher education for classifying and reporting "Current Fund" expenditure information by function. They are the same categories recommended in *Audits of Colleges and Universities* (AICPA: 1973, amended 1974) and *College and University Business Administration Administrative Service* (NACUBO: 1974). The subcategories described for each category have also been adopted by NACUBO and AICPA and are recommended where more detail is needed.

Instruction—Expenditures for all activities which are part of the institution's instruction program, with the exception of expenditures for remedial and tutorial instruction (which should be categorized as *student services*). Expenditures for both credit and noncredit activities should be included in this category.

Expenditures for departmental research and public service which are not separately budgeted should be included in this classification. This category will exclude expenditures for academic administration where the primary assignment is administration (e.g., academic deans). However, expenditures for departmental chairmen, since instruction is still an important role of the administrator, should be included in this category.

This category is composed of the following subcategories:

- *General academic instruction*—Expenditures for instructional activities operating during the academic year (as defined by the institution) and associated with academic offerings described by HEGIS discipline categories 0100 through 4900. Both credit and noncredit activities which fall within the 0100 to 4900 HEGIS categories should be included. Expenditures for an "open university," short courses, or home study activities which fall within 0100 to 4900 would be included in this category.
- *Occupational and vocational instruction*—Expenditures for activities established primarily to provide instruction in disciplines usually associated with HEGIS discipline categories 5000 through 5500. Both credit and noncredit activities falling within these HEGIS discipline categories should be included. "Open university," home study, and short courses falling within these HEGIS categories would be included.
- *Special session instruction*—Expenditures for instructional activities in operation during a summer session, interim session, or other period that is not within the institution's regular term. A special session would not

simply be a regular academic term held during the summer months, but should be a unique session. Only those expenditures (e.g., faculty salaries) which are made solely as a result of conducting the special session should be included. Expenditures for a special session term which is conducted over a fiscal year end should be reported totally within the fiscal year in which the major part of the program is conducted. The revenues and expenditures for any special mission should be reported in the same fiscal year. This procedure for reporting the expenditures of special sessions is an allowable exception to reporting expenditures on an accrual basis.

- **Community education**—Expenditures for activities intended to provide instruction to members of the community or groups external to the institution. This subcategory includes both credit and noncredit activities. It also includes community instructional activities managed separately by an extension division or similar agency within the institution.
- **Preparatory and adult basic education***—Expenditures for instructional activities intended to give students the basic knowledge and skills they need in preparation for formal academic coursework leading to a postsecondary degree or certificate. Also included in this subcategory are those instructional activities that must be taken prior to beginning work on a postsecondary degree or certificate in order to fulfill a standard requirement (e.g., high school completion). These activities, supplemental to the normal academic program, generally are termed “remedial,” “developmental,” or “special educational” services. Only those activities conducted by the academic staff as part of their normal workload will be recorded in this subcategory by the institution’s accounting system.

Research—All funds expended for activities specifically organized to produce research outcomes and either commissioned by an agency external to the institution or separately budgeted by an organizational unit within the institution. This category is not restricted to sponsored research only, since internally supported research programs should also be included. However, it does not include all sponsored programs (such as training programs)—it includes only expenditures specifically budgeted for research.

This category is comprised of the following subcategories:

- **Institutes and research centers**—Expenditures for research-related program elements that are part of a formal research organization created to manage a number of research efforts.
- **Individual or project research**—Expenditures for research activities that are normally managed within the academic departments and that have been created as a result of contracts or grants or through the specific allocation of institutional resources for the conduct of research studies or investigations. This category would include those departmental research expenditures which are separately budgeted.

Public service—All funds budgeted specifically for public service and expended for activities established primarily to provide noninstructional services beneficial to groups external to the institution. Such activities can include seminars, projects, and various organizational entities established to provide services to particular sectors of the community.

The associated subcategories are:

- **Community service**—Expenditures for those activities carried out to provide general community services excluding instructional activities. Community service is concerned with making available to the public various resources and unique capabilities that exist within the institution. Examples of such activities include conferences and institutes, general advisory services and reference bureaus, radio and television, consultation, and similar activities.
- **Cooperative extension service**—Expenditures for those noninstructional activities that are established as the result of cooperative extension efforts (e.g., agriculture extension, urban extension) between the institution and outside agencies. This subcategory is intended primarily for land-grant colleges and universities. The distinguishing feature of activities in this subcategory is that the programmatic and fiscal control is shared by the institution with one or more governmental agencies.

*This subcategory reflects an accepted revision to the structure recommended by the Joint Accounting Group. Therefore it is not only being included in the HEFM but also in the expenditure categories (described in *College and University Business Administration—Administrative Service* (NACUBO: 1974)).

Academic support—All funds expended for activities carried out primarily to provide support services that are an integral part of the operations of one of the institution's three primary programs—instruction, research, and public service. It includes the retention, preservation, and display of materials and the provision of services that directly assist the academic functions of the institution. This category includes media and technology (e.g., computing support) employed by the three primary programs as well as administrative support operations that function within the various academic units (including the development of future instructional activities).

This category is broken down into the following subcategories:

- **Libraries**—Expenditures for all activities that directly support the operation of a catalogued or otherwise classified collection of published material.
- **Museums and galleries**—Expenditures for all activities established to provide services related to the collection, preservation, and exhibition of historical materials, art objects, scientific displays, etc. Libraries are excluded.
- **Audio/visual services**—Expenditures for all activities providing audio and/or visual materials or media services to support the three primary programs.
- **Computing support**—Expenditures for activities established to provide computing support to the three primary programs. Excluded from this category is administrative data processing, which is included as part of the *institutional support* category.
- **Ancillary support**—Expenditures for activities providing support services to the three primary programs but not appropriately classified within the previous subcategories. An example of ancillary support is a demonstration school associated with the school of education. The expenditures of teaching hospitals are excluded.
- **Academic administration and personnel development**—Expenditures that provide administrative support and management direction for the three primary programs. This subcategory is intended to separately identify the expenditures for the management function in the primary programs. It includes the expenditures of academic deans but not those of the departmental chairmen, which would be included in the appropriate primary function categories.
- **Course and curriculum development**—Only those expenditures that are separately budgeted for activities that may result in instructional offerings at some point in the future. This subcategory also includes separately identifiable expenditures for any activities intended to improve the content or presentation of current course offerings.

Student services—All funds expended for admissions, registrar activities, and activities whose primary purpose is to contribute to students' emotional and physical well-being and to their intellectual, cultural, and social development outside the context of the formal instructional program.

This category includes the following subcategories:

- **Social and cultural development**—Expenditures for those activities that have been established to provide for the students' social and cultural development outside the degree curriculum. Activities included in this category are cultural events, student newspapers, intramural athletics, student organizations, etc. Expenditures for the intercollegiate athletics program would be included in this category if it is not operated as an essentially self-supporting operation, in which case it would be reported in the category *auxiliary enterprises*.
- **Counseling and career guidance**—Expenditures for testing centers, placement offices, etc. Excluded is informal academic counseling provided by the faculty in relation to course assignments.
- **Financial aid administration**—Expenditures for activities established to provide financial aid services and assistance to students. This subcategory does not include expenditures for outright grants to students, which would be included in *scholarships and fellowships*.
- **Student admissions and records**—Expenditures for activities of the student admissions office and the registrar's office.
- **Student health services**—Expenditures for student health services that are operated as a service to the student body rather than as an essentially self-supporting auxiliary enterprise.

Institutional support—All funds expended for activities whose primary purpose is to provide operational support for the day-to-day functioning of the institution, excluding expenditures for physical plant operations. Appropriate

allocations of institutional support should be made to auxiliary enterprises, to hospitals, and to any other activities not reported under the heading of *education and general expenditures*.

This category includes the following subcategories:

- *Executive management*—Expenditures for all central executive-level activities concerned with the management of and long-range planning for the entire institution, distinct from any one program within the institution. Included are such operations as executive direction (e.g., governing board), planning and programming, and legal operations.
- *Fiscal operations*—Expenditures for those operations related to fiscal control and investments of the institution. Included are such operations as the accounting office, bursar, internal and external audits, etc.
- *General administrative services*—Expenditures for those activities that provide central administrative support to the other activities of the institution. Included are administrative data processing, space management, and employee personnel and records.

This subcategory does not include expenditures for student admissions and the registrar's office, which should be reported as *student services*.

- *Logistical services*—Expenditures for activities that provide procurement services and the orderly movement of support materials for the campus operation. Included are purchasing, transportation, printing, campus security, etc.
- *Community relations*—Expenditures for activities established to maintain relationships with the general community, alumni, or other constituents and to conduct activities related to development and fundraising.

Operation and maintenance of plant—All expenditures of current funds for the operation and maintenance of physical plant, net of amounts charged to auxiliary enterprises and hospitals. Excluded are expenditures made from the institutional plant fund accounts. All expenditures for operations established to provide services and maintenance related to campus grounds and facilities are included. Also included are utilities, property insurance, fire protection, and similar items.

Scholarships and fellowships—Monies given in the form of outright grants and trainee stipends to individuals enrolled in formal coursework, either for credit or not.

The criteria to be used in determining which monies to include in the *scholarships and fellowships* expenditure category are the following:

1. The monies must represent expenditures of the "Current Funds" group.
2. The institution must have fiscal control of the funds which were used to make the grant.
3. The recipients should not be formally required to render services to the institution as consideration for the grant, nor should they be expected to repay the amount of the grant to the funding source.
4. The institution must have selected the recipient of the grant. If the institution is given control of the monies, but is not allowed to select the recipient of the grant (as with the Federal Basic Educational Opportunity Grants program), the funds should be reported in the "Agency Funds" group rather than in the "Current Funds" group.

Aid to students in the form of tuition and fees remissions should also be included in this expenditure category. However, remissions of tuition and fees granted as a result of either faculty or staff status, or family relationship of students to faculty or staff, should be recorded as staff benefit expense in the appropriate expenditure category.

Expenditures for trainee stipends awarded to individuals not enrolled in formal coursework should be included in either *instruction, research, or public service*, whichever is appropriate.

The terms "financial aid" or "student aid" refer to all forms of student financial assistance and include scholarships and fellowships as one such form of assistance. However, student aid also includes student loans and payments for student services rendered (e.g., student jobs). Where services are required in exchange for the financial assistance, as in the case of the Federal College Work/Study Program, the charges should be classified as expenses of the department or organizational unit to which the service is rendered. Loans to students are not scholarships and fellowships, but constitute a conversion of cash to receivables in the "Loan Funds" group. The sum of monies

associated with student aid is, therefore, a derived figure and is not maintained in the accounting records of the "Current Funds" group or any other fund group. The institution may therefore want to report a footnoted figure for student aid in addition to expenditures for scholarships and fellowships.

Scholarships and fellowships includes two subcategories:

- *Scholarships*—Outright grants-in-aid, trainee stipends, tuition and fees waivers, and prizes to undergraduate students.
- *Fellowships*—Outright grants-in-aid and trainee stipends to graduate students. It does not include funds for which services to the institution must be rendered (e.g., payments for teaching).

Auxiliary enterprises—Expenditures for entities which exist to furnish a service to students, faculty, or staff, and which charge a fee that is directly related to, although not necessarily equal to, the cost of the service. The distinguishing characteristic of auxiliary enterprises is that they are managed as essentially self-supporting operations. Therefore, although revenues do not always exceed or equal expenditures, auxiliary enterprise fees, unlike those of any other institutional operation, are usually set with this goal in mind. The general public may incidentally be served in some auxiliary enterprises. Examples are residence halls, food services, intercollegiate athletics, and student stores.

This category of expenditures embraces all costs, except depreciation, of operating the institution's auxiliary enterprises, including charges for physical plant operations and general institutional support. Also included in this category are other direct and indirect costs whether charged directly as expenditures or allocated as a proportionate share of the costs of other departments or units. Mandatory transfers of auxiliary enterprises (i.e., mandatory provisions for debt retirement, other financing costs, and renewals and replacements) should be reported in the *mandatory transfers* category.

This category includes the following subcategories:

- *Auxiliary enterprises-student*—All expenditures and charges for auxiliary enterprise activities primarily intended to furnish service to students. Student health services, when operated as an auxiliary enterprise, would be included. Intercollegiate athletics are excluded from this subcategory.
- *Auxiliary enterprises-faculty/staff*—All expenditures and charges for auxiliary enterprise activities primarily intended to provide a service to the faculty or staff. Such activities include the faculty club, faculty/staff parking, faculty housing, etc.
- *Intercollegiate athletics*—All expenditures for intercollegiate sports operated in accordance with the definition of an auxiliary enterprise.

Hospitals—All expenditures, except depreciation, associated with the operation of the hospital, including nursing expenses, other professional services, general services, administrative services, fiscal services, and charges for physical plant operations. Expenditures for activities that take place within the hospital but that are more appropriately categorized as *instruction* or *research* should be excluded from this category and accounted for in the appropriate categories. Mandatory transfers made for debt retirement, other financing costs, and renewals and replacements should be excluded from this category and separately reported in the *Mandatory transfers* category.

Mandatory transfers—All transfers from "Current Funds" which must be made to other fund groups in order to fulfill a binding legal obligation of the institution. They are distinct from voluntary provisions made at the discretion of the institution's governing body and are therefore separately classified.

Mandatory transfers should be reported in the following subcategories:

- *Provision for debt service on educational plant*—Mandatory debt-service provisions relating to academic buildings, including (1) amounts set aside for debt retirement and interest, and (2) required provisions for renewals and replacements to the extent not financed from other sources.
- *Provision for debt service on auxiliary enterprises*—Mandatory debt service provisions relating to auxiliary enterprises, including amounts set aside for (1) debt retirement and interest and (2) required provisions for renewals and replacements to the extent not financed from other sources.
- *Provision for debt service on hospitals*—Mandatory debt service provisions relating to hospitals, including amounts set aside for (1) debt retirement and interest and (2) required provisions for renewals and replacements to the extent not financed for other sources.
- *Loan fund matching grants*—Mandatory transfers to loan funds as required to match outside gifts or grants, usually from the U.S. Government.

- *Other mandatory transfers*—All mandatory transfers not included in the above categories. Other mandatory transfers that are material should be itemized within the *mandatory transfers* category. Those made for hospitals or auxiliary enterprises should be separately identified.

Independent operations—All funds expended for operations that are independent of or unrelated to the primary missions of the institution (instruction, research, public service), although they may indirectly contribute to the enhancement of these programs. This category is generally limited to expenditures for the operation of major federally funded research laboratories. This category does not include the expenditures of operations owned and managed as investments of the institution's endowment funds.

SECTION IV – “CURRENT FUNDS SOURCE/USE FORMAT”

The previous section described the three most widely used and generally recognized higher education financial statements. However, these three statements are not the only formats used to communicate financial information. In fact, institutions typically use a variety of other financial reports in support of these three statements. This section describes a reporting format that can be used in support of the three auditable statements--the “Current Funds Source/Use Format.” While the “Statement of Current Funds Revenues, Expenditures, and Other Changes” shows revenues and expenditures it does not show the *relationship* between the two types of information. It is the display of the source/use relationship that makes the “Current Funds Source/Use Format” an important supplementary format for the analysis of higher education financial information.

The “Current Funds Source/Use Format” is a display of funds by source (where “use” refers to expenditures and mandatory transfers). The sources represent the “money buckets” out of which expenditures or transfers were made. Therefore, the “Current Funds Source/Use Format” is essentially a matrix display of the uses of “Current Fund” expenditures. The uses of funds are classified by function down the vertical dimension of the matrix while the individual sources are shown along the horizontal dimension. The unique characteristic of the format is the information provided in the cells of the matrix where the user can see not only the purpose for which “Current Fund” monies were expended but also the source of funding used to finance that expenditure (see figure 7).

Figure 7.--The source/use relationship in the “Current Funds Source/Use Format”

	Source X	Source Y	Source Z
Functional use A			
Functional use B			Z/B
Functional use C			

Funds from Source Z were used to finance the expenditure for Function B.

Information about the relationship between individual sources of funding and the uses of those funds is particularly important in higher education planning and management because restricted funds play such a large role in college and university financing. Restricted funds are given to the institution with the stipulation that they be used for the purpose specified by the donor (the source). Therefore it can be assumed that when restricted funds are expended for a particular purpose, that purpose was determined by the donor (or source) rather than by the institution’s management. It is essential that planners and decisionmakers know as much as possible about these limitations on management’s ability to allocate resources where needed or desired.

This section is composed of two chapters, each offering a somewhat different treatment of the “Current Funds Source/Use Format.” The first chapter describes the format as a supplementary statement which can be related directly to the auditable “Statement of Current Funds Revenues, Expenditures, and Other Changes.” The second chapter outlines a variety of adaptations that can be made in the format in order to broaden its applicability for both inter- and intrainstitutional usage. The second chapter presents the source/use concept as a very flexible tool that can be used in a variety of ways while the first chapter focuses on the concept in the form of a specific financial statement.

8. "CURRENT FUNDS SOURCE/USE FORMAT" – SUPPLEMENTARY STATEMENT

This chapter describes the "Current Funds Source/Use Format" concept in the form of a supplementary statement. Referring to it as a supplementary statement means that:

1. Very specific categories are prescribed for displaying the sources and uses of funds in the format.
2. The data displayed in this format can be "linked" directly to the related data in the "Statement of Current Funds Revenues, Expenditures, and Other Changes."

Although the "Current Funds Source/Use Format" described in this chapter is a supplementary statement outlining "Current Funds" data, it is not a substitute for the generally accepted and auditable "Statement of Current Funds Revenues, Expenditures, and Other Changes."

STATEMENT DESCRIPTION

The "Current Funds Source/Use Format" is shown as a supplementary statement in figure 8. The numbers in figure 8 are included for illustrative purposes and have been chosen so that they can be linked directly to the "Statement of Current Funds Revenues, Expenditures, and Other Changes" (figure 6 in chapter 7). As mentioned earlier, figure 8 shows only "Current Funds" expenditures and mandatory transfers by source. The following characteristics of the format in figure 8 should be noted:

1. Figure 8 shows the source/use relationship for restricted funds only. It is not possible to trace the source of funding to the specific use of those funds unless the source stipulates how they are to be expended (i.e., unless a restriction has been placed on their use).
2. Figure 8 classifies the pool of unrestricted funds in two subcategories—"Undesignated" and "Designated." "Designated" funds are described in chapter 3 as those unrestricted funds for which the institution's governing board stipulates a specific use. Since one of the primary purposes of the format is to show limitations placed on the institution's management in allocating resources, the distinction is shown between unrestricted funds that have been designated and those that have not.
3. The level of detail for displaying data in figure 8 was chosen so that the format could be more easily prepared by the institution and more easily understood by the user. More or less detailed data can be displayed if necessary.

STATEMENT USES AND LIMITATIONS

As long as the user recognizes that the "Current Funds Source/Use Format" pertains to one aspect of the institution's total finances ("Current Fund" expenditures and transfers out) it can be a valuable tool for planning and management. It should be viewed primarily as a tool for looking at alternatives for institutional resource allocation. The analyst can focus on the "use" dimension and see for any particular use category what sources of funding supported expenditures in that category. The user can also focus on a single "source" category and see what types of expenditures those monies supported during that reporting period. This type of analysis provides the analyst the information needed to address several different types of resource allocation problems:

1. If the analyst sees that one use category receives significant support from a single source it might be wise to investigate the implications of such a dependency. For example, in figure 8, out of a total expenditure of

Figure 8... "Current Funds Source/Use Format"

Year Ended June 30, 19

Sample Educational Institution

Source of Funds Use of Funds (In thousands)	Unrestricted Funds		Restricted Funds						Total Funds Used (By Function)		
	Undesignated	Designated	Governmental Appropriations		Governmental Grants & Contracts		Private Gifts, Grants & Contracts	Endowment Income		Other Sources	Transfers In
			Federal	State	Local	Federal					
Instruction	2,350	610					280		209		3,449
Research		100			375	25					500
Public Service	110	20				25					155
Academic Support	250										250
Student Services	140	60									200
Institutional Support	450										450
Operation and Maintenance of Plant	220										220
Scholarships and Fellowships	5	85					100				190
TOTAL - Educational and General	3,525	875			375	25	25	380	209		5,414
Auxiliary Enterprises		1,830									1,830
Hospitals											
Independent Operations											
Mandatory Transfers (itemize if material)	192	320									512
Total Funds Used (by source)	3,717	3,025			375	25	25	380	209		7,756

\$500,000 for research, \$400,000 came from State and Federal grants and contracts. While such a dependency on "soft money" (funds for which the existence and the level of funding are relatively uncertain in the long run) in the research area is certainly not uncommon, further analysis of this dependency might be warranted. For example, such an analysis might show that the salaries of a large number of tenured faculty are being paid with soft money and, therefore, contingency plans for alternative funding might be in order.

2. As noted earlier, the format sheds light on the limitations placed on management's flexibility in allocating resources relative to the need for funds. Therefore, an analysis of source/use relationships will tell the reader where "holes" exist in restricted financing that must be filled with unrestricted funds as well as something about the amount of unrestricted funds needed to supplement restricted monies in specific areas. For example, in figure 8, the reader can see that "private gifts, grants, and contracts" supported \$100,000 of the total \$190,000 used for *scholarships and fellowships*. This means that \$90,000 of the institution's unrestricted funds were used to fill the "hole" in the total needed for scholarships and fellowships. If the analyst uses this information for projected planning, it means that if the future need for scholarships and fellowships stays constant at \$190,000, if \$100,000 of restricted funds cannot be found (from this source or another source), \$190,000 of unrestricted monies will be needed for scholarships and fellowships in the future. The format allows the user to analyze and project which restricted sources might be used to fill this future need.
3. By focusing solely on the source dimension the analyst can see the relative degree of flexibility given to management in allocating resources. For example, in figure 8, out of a total of \$5,414,000 expended for *educational and general* purposes, only \$3,525,000 (or 65 percent) could be allocated in whatever manner management felt was best. Therefore, management had unlimited management prerogative in allocating only 65 percent of their *educational and general* budget. Furthermore, \$1,014,000 (approximately 20 percent of the budget) was restricted by the donor and could not be changed even if the governing board also wanted to make the change.

These examples represent only a few of the uses of the "Current Funds Source/Use Format." In fact, one of the more valuable uses of the format is as a statement for exchanging financial data. While the information displayed in the cells of the format are not transactionally collected data at most institutions, the supplementary statement format displays data at sufficiently aggregate levels of detail so that many institutions will be able to complete the format with reasonably good data. In addition, the totals shown on the format can be tied directly to the same figures on the auditable "Statement of Current Funds Revenues, Expenditures, and Other Changes," a factor which also improves data reliability for exchange purposes. The next chapter outlines other uses for "adaptations" of the source/use concept.

There are two primary limitations to the use of the format in planning and decisionmaking. The most significant limitation is the same as for any supplementary statement for the "Current Fund"; i.e., it tends to divert the attention of users away from the total picture of institutional finances by focusing on only one subset of those finances, the "Current Fund." However, if users are sufficiently aware of the role of the "Current Fund" in institutional finances and if the format is used in conjunction with the "Balance Sheet," the "Statement of Changes in Fund Balances," and the "Statement of Current Funds Revenues, Expenditures, and Other Changes," no real problems should be encountered.

The second limitation relates to the data displayed for restricted funds in the source/use cells. As noted earlier, not all institutional accounting systems currently collect this information on a transactional basis (i.e., as each expenditure transaction is recorded). Therefore it may be difficult for some institutions to prepare the data needed for the cells of the format. The analyst should be aware that although the totals on the format can be tied back to an auditable "Current Funds" statement, the data shown in the cells are not necessarily auditable data.

GUIDELINES FOR STATEMENT PREPARATION

The "Current Funds Source/Use Format" is a display of "Current Fund" expenditures and, therefore, it should be prepared from the institution's expenditure records. Difficulties in preparing the format will arise if the source and use categories outlined in figure 8 differ from the categories used in the institution's accounting

systems. (NOTE: The categories of sources and uses in figure 8 are defined in the "Related Data Categories" section of chapter 7). The second problem many institutions will encounter will be identifying the sources used to fund specific restricted expenditures. Therefore, preparation of the "Current Funds Source/Use Format" is usually a two-step process:

1. In the first step expenditure data must be reaggregated from the institution's own expenditure categories into the expenditure categories shown in figure 8. In reaggregating data from the institution's categories into the HEFM categories, institutions will find that there may be some instances where the reaggregation can be completed very precisely and others where a certain amount of estimation will be required, even for the best accounting systems. For example, if the institution's expenditure categories are almost identical to the HEFM categories, the reaggregation will be simple and the data will be precise. However, if the institution's categories and the HEFM categories are quite different, part of the reaggregation may be completed accurately and part of it will probably require estimation by the person preparing the format.
2. The second step requires that sources of restricted funds used to support specific expenditures be identified. While there are several ways to relate sources to uses, institutions typically trace the sources of funding in one of three ways:
 - At some institutions a source of revenue code is recorded as part of the account number for every transaction in the expenditure accounting system. If the accounting system maintains source data and functional use data for every transaction, the procedure for completing the cells of the format primarily involves reaggregating data maintained in the institution's revenue and expenditure categories into the categories used in figure 8. The relationships between sources of restricted funds and expenditures will already have been collected in the institution's accounting system and can be obtained directly from the system.
 - A common practice in many institutions is to identify the source of funds as part of a structured fund code. This usually means that all unrestricted funds are reported as one fund code or fund grouping and that all restricted funds are reported by unique and separately identified funds. Within each fund code for restricted funds, a specific set of digits is used to identify the source of funds in that fund group. If this is the case, in order to identify the sources of "Current Fund" expenditures, the person preparing the format would relate the individual fund codes maintained in the expenditure accounting system to the HEFM source categories. Once these source category relationships have been identified, a crossover table can be prepared that will allow sources to be related to the appropriate categories of expenditures.
 - If the source/use relationship for certain restricted funds is not directly determinable from the accounting records, it is recommended that a procedure for estimating the uses of restricted funds be used in preparing the format. The procedure involves first determining a figure for *total funds used* for each source of restricted funds and then estimating the approximate proportion of that total used to support the activities in each functional category. The chief fiscal officer at each institution usually can estimate the functional uses of each source of restricted funds with a reasonable degree of accuracy. Even in those cases where the relationships between the sources and uses of restricted funds are not part of the accounting system, exact figures usually are known for certain cells (e.g., *governmental grants and contracts-Federal used for research*). If exact figures are known for a few cells, these figures can be used to guide the data provider in completing the format.

9. ADAPTATIONS OF THE "CURRENT FUNDS SOURCE/USE FORMAT"

This chapter describes ways in which the "Current Funds Source/Use Format" can be adapted to meet specific needs. It was emphasized earlier that source/use is a concept for formatting financial data and as such is not restricted to the supplementary statement set forth in chapter 8. The purpose of this chapter is to illustrate several alternative ways in which the source/use concept can be adapted and used, hopefully stimulating readers' imaginations so they will contrive their own adaptations of the format. The approach taken in this chapter is to describe first a situation in which higher education financial information is needed and then show how an adaptation of the source/use concept can be used to meet this need.

COMMUNICATION WITH FUNDING SOURCES

The situation arises quite often in which an institution needs to communicate with an individual source of funding about the monies that source contributed and how those monies were used. The source/use formatting concept is ideally suited to this need, particularly when one funder wants to know about the relationship between its contribution and those of other funders (e.g., the State might also want to know about the extent and type of Federal support used during the reporting period).

In communicating with a single funder, one potentially useful adaptation of the source/use concept is to single out that funder's contribution and show it as a single column displaying more detailed expenditure data. For example, if the source of funding is the National Science Foundation (NSF), rather than aggregating NSF's contribution along with all other Federal grants and contracts, a single column for NSF funds only could be shown. More detailed information could then be provided for this column without a detailed treatment for all columns in the format. Figure 9 below illustrates how such an adaptation might look for purposes of communicating with NSF.

Figure 9.--Sample adaptation of the "Current Funds Source/Use Format" to display a funding source

Source Use	Unrestricted funds	Restricted			...
		Gov't. grants & contracts			
		Federal	State	Local	
Instruction					<div style="border: 1px solid black; padding: 5px; display: inline-block;">NSF</div>
Research				Instruction	
Public service				Research	
				Physics	
				Chem.	
				Math.	
				.	
				.	
				Pub. Serv.	

COMMUNICATION WITH THE LEGISLATURE/GOVERNING BOARD

It is essential that the institution communicate effectively with its State legislature, State governing board, or institutional governing board. Not only has the "Current Funds Source/Use Format" been found to be an effective tool for communicating the institution's financial story to members of these kinds of groups, it can also be used to eliminate much of the detail needed in such a communication process. The format allows the institution to show the broad picture of "Current Fund" expenditures at a fairly aggregate level of detail, making it easier for the legislator or governing board member to understand and easier for the institution to prepare. Then, if more detailed data about a particular aspect of "Current Fund" expenditures are needed, the detail can be limited to that aspect only. For example, it may be important to look at the "endowment income"/*scholarships and fellowships* cell of the source/use format in some depth. More detail may be needed either about the sources of funds or the uses, or both. If this additional detail can be provided without looking at the same kind of detail for all other sources and uses of "Current Fund" resources, both the governing body member and the institutional data provider will benefit.

PROJECTIVE PLANNING

In all of the previous discussion, historical data are displayed in the format. However, one of the more valuable uses of the source/use concept is in the conduct of future-oriented projective planning. The analyst therefore becomes both the data provider and the data user.

Future projections of how much money will be needed in various program areas can be used to complete the total column for "total funds used (by function)." The analyst can then focus on where those funds might be obtained and which sources would provide what proportion of the total. All of the data would be projected rather than historical and completion of the entire format for a future time period would alert the analyst to areas where future funding appears uncertain and where it appears strong.

RESOURCE ACQUISITION/FUNDRAISING

Another important use of the source/use concept is in the resource acquisition/fundraising operations of the institution. Private institutions have found that donors often restrict the use of their gifts. Adaptations of the format can be used by the institution's development office to show potential donors where adequate funding already is available, thereby minimizing the chances that the donor will restrict the gift for an already adequately funded need. This will, in turn, allow the development officer to point to areas where a real need for additional funding exists and, assuming the donor desires to restrict the gift, allow the development officer to "channel" that restriction to one of these unmet needs.

Both public and private institutions can use the format to emphasize the extent of restricted funding currently existent in the institution's financial structure. Showing potential donors/funders the extent to which management is already constrained in the allocation of institutional resources (by showing them the proportion of those resources that are restricted) will allow the fundraiser to make a better case for unrestricted funding.

INTRAINSTITUTIONAL PLANNING AND MANAGEMENT

All of the previous examples for using the format, including the supplementary statement, have focused on the institution. However, the source/use concept can be adapted easily to meet the needs of planning units within the institution (schools, departments, etc.). Such an adaptation would require somewhat different classifications of sources and uses but many of the same resource allocation and resource acquisition problems exist at these levels that exist at the institutional level. In order to best adapt the format to intrainstitutional planning and management several assumptions about planning and management at the intrainstitutional level must be made:

1. The funds that the individual school/department receives from the institution's budget are similar in most respects to the institution's unrestricted "Current Fund." While the budgeting process may restrict the use of some of these funds, these funds fall into the *designated* category because the restriction can usually be

changed or eliminated. Another similarity is that the school/department usually cannot trace the original source of these budget funds. Therefore, in using the source/use format at the school/department level, funds received from the institution's budget will be treated in the same way as unrestricted funds in the institutional source/use format.

2. Many schools/departments receive restricted monies from sources external to the institution. These are sometimes received in the form of research grants obtained by individual faculty members and in other instances they are received as private gifts restricted to the use of the particular school/department. In adapting the source/use format, those funds restricted solely for the use of the individual school/department will be displayed in the same way restricted funds are displayed in the institutional "Current Funds Source/Use Format."
3. Although programs such as instruction, research, etc. are important to the school/department planner or manager, other categories of use are of equal, or greater, importance at organizational levels within the institution. For example, it is important to know how expenditures are distributed among faculty salaries, supplies and services, equipment, and so forth (*object* classifications). Therefore, another adaptation of the institutional "Current Funds Source/Use Format" for use at the school/department level would be the substitution of *objects* of expenditure along the use dimension.

These assumptions about intrainstitutional planning and management result in the adapted "Current Funds Source/Use Format" in figure 10 below.

Figure 10.—Sample adaptation of the "Current Funds Source/Use Format" for intrainstitutional planning.

Source Use	Institutionally budgeted funds	Gov't. grants and contracts	Private gifts, grants, and contracts	Endowment income	Other	Total
Faculty salaries						
Supplies & services						
Equipment						
Other						
Total						

Summary

This discussion of source/use adaptations is intended to stimulate readers to develop their own adaptations of the source/use concept. It is illustrative only and should not be considered an exhaustive treatment of the uses of the "Current Funds Source/Use Format." The important characteristic of the source/use concept for data display is that, unlike the more traditional financial statements in higher education, it shows the relationship between the expenditure of institutional monies and the sources of funding for those expenditures. Whenever a particular planning or management decision would be aided by a better knowledge of this relationship, some version of this format will aid the decisionmaker.

SECTION V – IMPLICATIONS OF THE HEFM

10. IMPLICATIONS OF THE HEFM FOR ACCOUNTING SYSTEMS

The HEFM describes several illustrative report formats which, if used, have significant implications for institutional accounting systems. This chapter describes some of these system implications and lists those data elements needed to prepare the HEFM report formats.

HEFM REPORT FORMATS AND THE ACCOUNTING SYSTEM

From a data collection and maintenance standpoint, there are two types of financial statements described in the HEFM. The "Balance Sheet," "Statement of Changes in Fund Balances," and "Statement of Current Funds Revenues, Expenditures, and Other Changes" are "auditable" financial statements prepared from the accounting records by summarizing those transactional data collected during the reporting period. In certain instances, the reports described in the HEFM will require data categories different from those that institutions have used in the past. However, the data categories used in the HEFM are the generally recognized categories for reporting higher education financial data. These categories have been adopted by both NACUBO and AICPA and are recommended for use by these organizations. Therefore, institutions will find it to their advantage to reconcile in some way the categories recommended in the HEFM with the categories they use to collect and maintain transactional accounting data. The display formats for all three primary financial statements are familiar ones and most institutional accounting systems should be able to produce these reports without much difficulty.

The second type of report format described in the HEFM is a planning format—the "Current Funds Source/Use Format." While it is hoped that institutions will also be able to use transactionally collected data in preparing the "Current Funds Source/Use Format," it may be necessary to use estimated data. The preparation of this format introduces several factors that will have an impact on institutional accounting systems:

1. The source and use categories used in the format will represent some changes for most institutions. Individual institutions may select either of two alternatives in classifying data in the HEFM categories. First, many institutions will choose to record transactional data in the HEFM categories by making the appropriate changes in the institution's accounting system. Incorporation of these expenditure categories at their most detailed level of aggregation (i.e., the subcategory level) will improve the institution's ability to use and report expenditure data for many purposes. The second alternative is to use a crossover or table look-up procedure for reaggregating the data into the HEFM categories. However, incorporation of the categories directly into the institution's administrative data systems will allow for the easy and accurate preparation of comparable financial reports without the inherent problems of conducting crossover procedures.
2. The most significant implication of the "Current Funds Source/Use Format" is that restricted "Current Fund" expenditures be reported *by source* of funding. In order to satisfy this requirement the institution's accounting system must be able to identify the source of funding used for expenditures of restricted "Current Funds." Institutions typically trace sources of funding in one of two ways. One way is to include a specific source code as part of the account number for every transaction in the expenditure accounting system. Where this alternative is used, adequate classification as part of the source code will provide the needed link between sources and uses of restricted funds. A second way, and perhaps the more common practice, is to identify the source as part of a "structured" fund code. This usually means that all unrestricted funds are reported as one fund code and all restricted funds are reported separately in individual restricted fund groups. Within each restricted fund group code, a specific set of digits is used to identify the source of funds for that fund group.

The problem encountered in using a structured fund code is that the number of sources than can be followed is limited by the number of digits set aside for this purpose in each fund group code. A need to maintain information on more sources than the system is designed to accommodate will result either in a breakdown of the coding structure or in an inability to maintain the needed information.

Therefore, an accounting system that incorporates the HEFM source and use categories and subcategories and is also capable of providing the source/use link for restricted funds will aid in the preparation of accurate HEFM reports.

HEFM INFORMATION ELEMENTS

If the institution's accounting system is capable of collecting and maintaining the following information elements, the data needed to prepare the financial reports described in the HEFM will be available.

1. Information Element: Fund Group

Definition: A group of funds of similar character where *fund* is defined as "an accounting entity established for the purpose of carrying on specified activities or obtaining certain objectives in accordance with special regulations, restrictions, or limitations."

Categories: Current Funds
Loan Funds
Endowment and Similar Funds
Annuity and Life Income Funds
Plant Funds
Agency Funds

Remarks: These categories are defined in HEFM chapter 4: "Definitions of Financial Terms."

2. Information Element: Restriction Category

Definition: The limitations placed by donors upon the uses of those monies they provide the institution.

Categories: Unrestricted (includes *designated*)
Restricted

Remarks: These categories are defined in HEFM chapter 3: "Concepts of Fund Accounting"

3. Information Element: Balance Sheet Categories

Definition. An institutionally defined information element that identifies the nature of the various elements of the institutional statement of financial condition. These elements will be reflected in the statement of each self-balancing fund group.

Categories: Assets
Liabilities
Fund Balance

Subcategories: Assets:
Cash Short-Term Investments
Accounts Receivable

Inventories, Prepaid Expenses, etc.
Notes Receivable
Marketable Investments
Institutional Plant
Interfund Borrowing

Liabilities:

Accounts Payable
Student Deposits
Deferred Revenues
Notes Payable
Contracts Payable
Mortgages Payable
Bonds Payable

Remarks: The subcategories are defined in HEFM chapter 5: "Balance Sheet."

4. Information Element: Source of Funds

Definition: An identifier used to group funds added to the various institutional fund groups according to their source.

Categories: Tuition and Fees
Governmental Appropriations - Federal
Governmental Appropriations - State
Governmental Appropriations - Local
Governmental Grants and Contracts - Federal
Governmental Grants and Contracts - State
Governmental Grants and Contracts - Local
Private Gifts, Grants, and Contracts
Endowment Income
Sales and Services of Educational Activities
Sales and Services of Auxiliary Enterprises
Sales and Services of Hospitals
Other Sources
Independent Operations (where applicable)
Transfers In

Remarks: These categories are defined for revenues in the "Current Fund" in HEFM chapter 7: "Statement of Current Funds Revenues, Expenditures, and Other Changes." They are defined for all other additions in HEFM chapter 6: "Statement of Changes in Fund Balances."

5. Information Element: Fund Deductions—Type

Definition: An institutionally defined information element used to identify those funds used out of a particular fund group, by type, during the reporting period.

Categories: Current Fund Expenditures
Loan Cancellations and Write-Offs
Expenditures for Plant Facilities

5. Information Element: Fund Deductions—Type (Continued)

Categories: (Continued)
Debt Service
Other Deductions
Transfers Out

Remarks: These categories are defined in HEFM chapter 6: "Statement of Changes in Fund Balances." There will be other categories of deductions needed in most institutions. The categories listed here are those needed to complete the "Statement of Changes in Fund Balances" in the detail shown in the HEFM.

6. Information Element: Functional Classification—Expenditures

Definition: An institutionally defined information element that groups expenditures according to the purpose for which costs were incurred. The following categories usually are applied only to "Current Fund" expenditures.

Categories: Instruction
Research
Public Service
Academic Support
Student Services
Institutional Support
Operation and Maintenance of Plant
Scholarships and Fellowships
Auxiliary Enterprises
Hospitals
Mandatory Transfers
Independent Operations (where applicable)

Remarks: Definitions for these categories and subcategories are included in HEFM chapter 7: "Statement of Current Funds Revenues, Expenditures, and Other Changes." Although it is not necessary to use the associated subcategories to complete the HEFM report formats at the level of aggregation shown in chapter 7, use of these subcategories will increase the usefulness of the expenditure data for other purposes.

7. Information Element: Fiscal Year

Definition: The institutionally defined consecutive 12-month period to which a financial transaction or summary is applicable.

Categories: Two low order digits of the fiscal year; e.g., fiscal year 1973 = "73."

Remarks: It is recommended that institutions use the Federal standard of designating the calendar year in which the fiscal year ends as the fiscal year; e.g., 1972-73 = fiscal year 1973.

8. Information Element: Dollar Amount

Definition: The quantifiable measure of a financial transaction or summary as expressed in U.S. dollars.

OTHER INFORMATION ELEMENTS

There is other financial information that will need to be maintained in the institution's accounting system. Although this information may be used to prepare one of the HEFM reports if different data categories are used or if the report is prepared for an organizational unit within the institution, it will be needed primarily for purposes other than the preparation of HEFM reports.

1. *Information Element:* Organizational Unit

Definition: The academic department or other organizational division that has fiscal, programmatic, administrative, and budgetary responsibility for a specified set of activities and accounts.

Remarks: This information element should be consistent through all uses and files in the institution's administrative data system.

2. *Information Element:* Object Classification

Definition: The classification of institutional expenditures according to the type of goods or services received in return for the expenditures.

Categories: Instruction/Research Professional Personnel Compensation
Administrative/Support Professional Personnel Compensation
Nonexempt Staff Compensation
Supplies and Services (includes travel, communications, etc.)
Rental Expenditures - Buildings and Land Improvements
Rental Expenditures - Equipment
Capital Expenditures - Equipment
Capital Expenditures - Buildings and Land Improvements
Scholarships and Fellowships
Expenditures for Items Purchased for Resale

Remarks: These object classifications are the recommended categories for the NCHEMS Cost Finding Principles project and the NCHEMS Information Exchange Procedures project.

3. *Information Element:* Transaction Date

Definition: The calendar date on which the transaction takes place. This information element is that date recorded on the document finalizing the transaction.

Remarks: The information element will be needed for financial control purposes whereas the element "Fiscal Year" will be used more for reporting purposes.

4. *Information Element:* Transaction Description

Definition: A descriptive word or phrase used to characterize the transaction.

Remarks: This information element can be used to describe the transaction over and above what is provided by the other information elements.

5. *Information Element:* Debit/Credit Indicator

Definition: An institutionally defined information element used to signify whether the transaction is to be added to or deducted from the balance of the account.

6. *Information Element:* Chargeback Indicator

Definition: An institutionally defined information element used to identify expenditures for support activities which are "charged back" to the purchasing organizational unit.

Remarks: This information element will be needed by those institutions employing a system of chargebacks for the NCHEMS Information Exchange Procedures project.

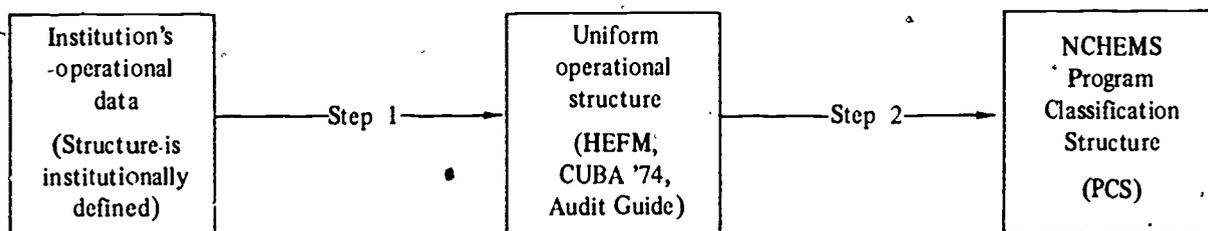
11. RELATIONSHIP OF THE HEFM TO OTHER NCHEMS PROJECTS

HEFM addresses those financial data which the institution collects and maintains in its transactional accounting system. Transactional accounting data are often referred to as the institution's "operational" financial data (i.e., those data collected on the basis of the institution's day-to-day operations). Examples of operational data include student registration data and faculty assignment data. The primary role of operational data at most institutions is in the budgeting and accountability functions and, therefore, the collection of operational data is usually structured around organizational units.

One of the principal weaknesses of operational data is that it is often difficult to relate such data to the planning objectives of the institution. Therefore, the concepts of "programs" (i.e., sets of activities or resources contributing to common objectives) and "program data" have been introduced in support of planning and budgeting. Program data usually cut across several different organizational units and are, therefore, generally organized and structured in a manner different from that for operational data.

One way to describe the HEFM's relationship to other NCHEMS projects is to focus on the distinctions between operational data and program data. While the HEFM deals with the institution's operational financial data, the other NCHEMS finance data projects deal with program data. One such project is the NCHEMS Cost Finding Principles (CFP) project which describes procedures for determining program costs. The structure used in the CFP project to classify program data is the NCHEMS Program Classification Structure (PCS). In order to use the costing procedures outlined in the CFP, most institutions will have to conduct a two-step reaggregation of their operationally collected financial data. These two steps are portrayed in figure 11 below:

Figure 11.--Data reaggregation procedure for use of the Program Classification Structure (PCS)



In order to be able to describe a set of procedures for determining program costs, it must be possible to assume a single uniform set of operational data. Since most institutions currently define their own unique categories for accounting data, the CFP project assumes that expenditures are maintained in the expenditure categories outlined in the HEFM. Using this assumption, the CFP project then prescribes a set of procedures for reaggregating data into the Program Classification Structure (in the CFP project this step is called the "direct cost" phase). Thus, the HEFM's operational data structure, definitions, and procedures are the basis for the CFP's costing procedures and are the assumed starting point for the project.

The relationship between the HEFM and the CFP project is much the same as the HEFM's relationship to NCHEMS's other finance-related projects. All NCHEMS projects requiring operational financial data use the definitions, procedures, and report formats outlined in the HEFM. Whenever financial data are needed in a "program structure, the HEFM structure will be the assumed starting point and procedures for getting operational data into the Program Classification Structure will be developed as part of each project.

Figure 12 illustrates the primary differences between the Program Classification Structure and the HEFM operational data structure. It should be noted that the correlation between the PCS and the HEFM structure exists

at the HEFM subcategory level and the PCS subprogram level. Therefore, in order to minimize as much as possible the problems in reaggregating operational data into the PCS, the institution should collect and maintain its accounting data at the HEFM subcategory level.

Figure 12.--Comparison of PCS to HEFM expenditure categories

PCS category	Related HEFM category	Remarks
<p>1.0 INSTRUCTION</p> <p>1.1 General Academic</p> <p>1.2 Occupational & Vocational</p> <p>1.3 Community Education</p> <p>1.4 Preparatory & Adult Basic Education</p>	<ul style="list-style-type: none"> • General Academic • Occupational & Vocational • Community Education • Preparatory and Adult Basic Education • <u>Special Session Instruction</u> 	<p>All of the HEFM categories include both credit and noncredit instructional activities. The PCS includes credit activities in 1.1 and 1.2 and noncredit in 1.3 and 1.4.</p> <p>The activities included in the HEFM category "Special Session Instruction" are spread across any or all of the 1.0 subprograms as appropriate.</p>
<p>2.0 RESEARCH</p> <p>2.1 Institutes & Research Centers</p> <p>2.2 Individual or Project Research</p>	<ul style="list-style-type: none"> • Institutes & Research Centers • Individual or Project Research 	<p>The HEFM category "Individual or Project Research" includes separately budgeted departmental research. In the PCS, departmental research is classified in the appropriate subprogram on the basis of primary intent (e.g., instruction, research, personnel development).</p>
<p>3.0 PUBLIC SERVICE</p> <p>3.1 Patient Services</p> <p>3.2 Community Services</p> <p>3.3 Cooperative Extension Services</p> <p>3.4 Public Broadcasting Services</p>	<ul style="list-style-type: none"> • Hospitals • Community Services • Cooperative Extension Service • None 	<p>The HEFM category "Hospitals" includes the hospital's administrative activities which would be classified in the PCS in program 6.0 "Institutional Support."</p> <p>In the HEFM, radio and television stations are included in the category "Community Services" while in the PCS they are classified in subprogram 3.4, "Public Broadcasting Services."</p>

Figure 12... Comparison of PCS to HEFM expenditure categories--(Continued)

PCS category	Related HEFM category	Remarks
<p>4.0 ACADEMIC SUPPORT</p> <ul style="list-style-type: none"> 4.1 Libraries 4.2 Museums & Galleries 4.3 Audio/Visual Services 4.4 Computing Support 4.5 Ancillary Support 4.6 Academic Administration 4.7 Course & Curriculum, Development 4.8 Academic Personnel Development 	<ul style="list-style-type: none"> • Libraries • Museums & Galleries • Audio/Visual Services • Computing Support • Ancillary Support • Academic Administration & Personnel Development • Course & Curriculum Development • Academic Administration & Personnel Development 	<p>The HEFM category "Academic Administration & Personnel Development" is split between two subprograms in the PCS, 4.6 and 4.8.</p>
<p>5.0 STUDENT SERVICES</p> <ul style="list-style-type: none"> 5.1 Student Service Administration 5.2 Social & Cultural Development 5.3 Counseling & Career Guidance 5.4 Financial Aid Administration 5.5 Student Auxiliary Services 5.6 Intercollegiate Athletics 	<ul style="list-style-type: none"> • None • Social & Cultural Development • Counseling & Career Guidance • Financial Aid Administration • Student Health Services • Auxiliary Enterprises - Student • Intercollegiate Athletics 	<p>There is no comparable HEFM category for "Student Service-Administration."</p> <p>The PCS subprogram 5.5 includes two HEFM categories, "Student Health Services" and "Auxiliary Enterprises - Student."</p>
<p>6.0 INSTITUTIONAL SUPPORT</p> <ul style="list-style-type: none"> 6.1 Executive Management 6.2 Fiscal Operations 6.3 General Administrative Services 6.4 Logistical Services 	<ul style="list-style-type: none"> • Executive Management • Fiscal Operations • General Administrative Services • Logistical Services 	

<p>6.5 Physical Plant Operations 6.6 Faculty & Staff Auxiliary Services 6.7 Public Relations & Development 6.8 Student Recruitment, Admissions, & Records</p>	<ul style="list-style-type: none"> • Operation & Maintenance of Plant • Auxiliary Enterprises Faculty/Staff • Community Relations • Student Admissions & Records 	
<p>7.0 INDEPENDENT OPERATIONS</p>	<ul style="list-style-type: none"> • Independent Operations 	<p>This category in both the PCS and the HEFM structure is intended to be used for those activities which are independent of, or unrelated to, the primary missions of the institution.</p>
<p>8.0 SCHOLARSHIPS & FELLOWSHIPS 8.1 Scholarships 8.2 Fellowships</p>	<ul style="list-style-type: none"> • Scholarships • Fellowships 	
<p>NONE</p>	<ul style="list-style-type: none"> • Mandatory Transfers 	<p>No PCS subprograms exist which are comparable to the HEFM "Mandatory Transfers" category.</p>