

Chapter 2 Fund Structure

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GENERAL

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

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

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

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

The community college fund structure presented here is based largely on concepts and principles contained in the Government Finance Officers Association (GFOA) publication, Governmental Accounting, Auditing, and Financial Reporting (GAAFR). This structure allows districts to establish any number of funds, subfunds, or accounts for internal accounting, but requires for external financial reporting purposes that all accounts be consolidated into one of three broad fund types:

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

Generally accepted accounting principles (GAAP) further requires that all accounts reported within a single fund group use the same “basis of accounting” for timing the recognition of revenues, expenditures, and transfers. The proper timing of that recognition is part of the accounting requirements for each fund type.

Fund code numbers are assigned to each fund. The numbers are required for the statewide-automated reporting system.

GOVERNMENTAL FUNDS TYPE

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

General Description

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

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

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

General Accounting Principles

- Governmental fund accounting uses the modified accrual basis of accounting. The emphasis is on determining the financial flow of operating revenues and expenditures, rather than net income. Consequently, the statement of revenues, expenditures, and changes in net position is one of the primary governmental fund operating statements. It

may be supported or supplemented by more detailed schedules of revenues, expenditures, transfers, and other changes in fund balance.

- Revenues and related receivables are recorded in the accounting period in which they are earned, available, and measurable unless otherwise specified. “Available” means collectible in the fiscal year accrued or soon enough thereafter to be used to pay liabilities of the fiscal year in which accrued.
- Expenditures and related accruals (current liabilities) are recognized in the accounting period in which the fund liability is incurred.
- A “liability” is a debt or other legal obligation (exclusive of encumbrances) arising out of transactions in the past that must be paid, renewed, or refunded within the current account period. Accordingly, an encumbrance of funds, such as the issuance of a purchase order, does not become a liability unless the service or product specified on the purchase order has been delivered.
- Unearned Deferred—revenues should be recorded for certain revenues that are collected in advance of when they are earned. For example, enrollment fees charged in the current fiscal year for courses beginning after the spring term, or federal or state grants where revenue is recognized in the period that expenditures take place are subject to unearned Deferred revenue accounting.
- Capital asset purchases are recorded as expenditures in the period acquired. However, the cost of the asset should also be captured for capitalization as determined by the district’s Capital Asset policy. The capitalization of assets and related depreciation is recorded as part of the GASB 34/35 conversion entries to the full accrual basis of accounting for reporting in the annual audited financial statements (see ~~Chapter 6~~—Government Accounting Financial and Reporting Handbook).
- Proceeds from long-term debt are recorded as Other Sources of Revenues in the period received. The long-term portion of the related liability is captured and accounted for in accordance with the GASB 34/35 conversion entries to the full accrual basis of accounting for reporting in the annual audited financial statements (see ~~Chapter 6~~). For further details see the Government Accounting Financial and Reporting Handbook.

Governmental Funds Group 10

10 General Fund

11 Unrestricted Subfund

12 Restricted Subfund

Nature and Purpose

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

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

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

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

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

Accounting Principles

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

10 General Fund Subfunds

11 Unrestricted Subfund

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

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

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

12 Restricted Subfund

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

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

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

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

Governmental Funds Group 20

20 Debt Service Funds

21 Bond Interest and Redemption Fund

22 Revenue Bond Interest and Redemption Funds

29 Other Debt Service Fund

Nature and Purpose

Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest. Revenues accounted for in Debt Service funds are primarily from special property tax levies, interest, or operational income from completed projects financed by revenue bonds, energy loans, or may receive interfund transfers from other funds servicing the debt. Debt Service Fund cash and

investments are generally maintained in the appropriate county treasury. However, the repayment of emergency apportionments received pursuant to California Code of Regulations, Title 5, section 58316 is accounted for in the General Fund, Subfund 11 Unrestricted.

Accounting Principles

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

20 Debt Service Subfunds

21 Bond Interest and Redemption Fund

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

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

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

Responsibility for this fund is vested with the county auditor.

22 Revenue Bond Interest and Redemption Fund

The Revenue Bond Interest and Redemption Fund is the designated fund to be used to record transfers from the Revenue Bond Project Fund (the operating fund) as may be required to pay the principal and interest for bonds issued under provisions prescribed by part 49 (commencing with section 81901 et seq.) of division 7 title 7 of the Education Code of Chapter 5, Division 7, Part 49 of the Education Code 81901 et seq.

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

29 Other Debt Service Fund

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

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

After all obligations have been paid, any unexpended balance may be expended for the purpose established in the original obligation or, if no restriction is placed on the

unexpended balance, may be transferred to the General Fund - Unrestricted for expenditure. Responsibility for this fund vests with the Board.

Governmental Funds Group 30

30 Special Revenue Funds

31 Bookstore Fund

32 Cafeteria Fund

33 Child Development Fund

34 Farm Operation Fund

35 Revenue Bond Project Fund

39 Other Special Revenue Fund Nature and Purpose

Nature and Purpose

Special Revenue Funds are used to account for the proceeds of specific revenue sources whose expenditures are legally restricted. In general, Special Revenue Funds encompass support services that are not directly related to the educational program of the college. If recovery of the cost of providing such services is **not** the objective of the governing board, the activities may be recorded in Special Revenue Funds. However, if the district engages in business-type activities (e.g., bookstore and cafeteria), where the intent is to recover, in whole or in part, the cost of providing goods or services to beneficiaries, the activities should be reported in Enterprise Funds.

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

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

Accounting Principles

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

30 Special Revenue Subfunds

31 Bookstore Fund

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

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

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

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

32 Cafeteria Fund

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

The Cafeteria Fund is the fund designated to receive all moneys from the sale of food or for any other services performed by the cafeteria when recovery of the cost of providing such services is not the objective of the governing board. **However, if the intent is to recover, in whole or in part, the cost of providing goods or services to beneficiaries, the**

activities should be reported in the Cafeteria Enterprise Fund (52). If vending is an integral part of the district's food service, the activity should be recorded in this fund. However, the instructional activity associated with a program in food service, hotel management, or a related field, should be separately identified and recorded in the General Fund.

The food served by cafeterias shall be “sold to the patrons of the cafeteria at such a price as will pay the cost of maintaining the cafeteria, exclusive of the costs made a charge against the funds of the community college district by resolution of the governing board” (5 C.C.R. §59013). “Costs ~~made~~ a charged against the funds of the community college district” may include the cost of housing and equipping the cafeteria and the cost of replacement of equipment and utilities if the governing board elects to subsidize such costs. The intent of the California Code of Regulations, title 5, section §59013 appears to be for the food service operation to be a cost recovery rather than a revenue-producing activity.

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

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

33 Child Development Fund

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

34 Farm Operation Fund

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

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

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

35 Revenue Bond Project Fund

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

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

Any balance remaining in this fund after payment of all costs, expenses, and charges authorized to be expended from this fund may be allocated and used for purposes incidental to the acquiring, constructing, furnishing, equipping, operating, and maintaining

of the projects authorized under Education Code section 81901 et seq., as may be determined by the governing board. (Ed. Code, § 81964)

39 Other Special Revenue Fund

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

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

Governmental Funds Group 40

40 Capital Projects Funds

41 Capital Outlay Projects Fund

42 Revenue Bond Construction Fund

43 General Obligation Bond Fund

4X Other Capital Project Fund

Nature and Purpose

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

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

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

- Acquisition or construction of new capital facilities (e.g., land, buildings, site improvements).
- Improvements or extensions to the life of existing capital facilities, including major repair and remodeling projects such as Deferred Maintenance Special Maintenance and Special Repairs as defined in Education Code section 84660.

- Initial equipping of buildings (library books, furniture, fixtures, classroom supplies, etc.).
- Significant capital equipment purchases.

Accounting Principles

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

Capital Projects Subfunds

41 Capital Outlay Projects Fund

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

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

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

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

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

42 Revenue Bond Construction Fund

The Revenue Bond Construction Fund is the fund designated in Education Code section 81961 for the deposit of proceeds from the sale of all community college revenue bonds authorized under the provisions of Education Code section 81901. Such deposits are used to meet the costs of acquisition or construction and all expenses of authorized projects (i.e.,

dormitories or other housing facilities, boarding facilities, student union or student activity facilities, vehicle parking facilities, or any other auxiliary or supplementary facilities as authorized).

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

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

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

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

43 General Obligation Bond Fund

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

The proceeds from the sale of bonds are deposited with the county treasury and recorded as Other Financing Sources. Moneys may only be expended for the purposes authorized by the language of the Proposition 39 Bond voter approved ballot measure. As there may be several projects on-going at any moment in time, multiple subfunds of the General

Obligation Bond Fund may be used, but all projects and subfunds will be rolled up and reported to the Chancellor's Office as one fund.

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

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

4X Other Capital Project Fund

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

As there may be several projects on-going at any moment in time, multiple subfunds of the Other Capital Project Fund may be used, but all projects and subfunds will be rolled up and reported to the Chancellor's Office as one fund.

PROPRIETARY FUNDS TYPE

50 Enterprise Funds

60 Internal Service Funds

General Description

The Proprietary Funds Group is used to account for those ongoing activities that, because of their income-producing character, are similar to those found in the private sector. All

assets, liabilities, deferred outflows/inflows, net position, equities, revenues, expenses, and transfers relating to business or quasi-business activities are accounted for through these funds. The focus of proprietary fund accounting is on measuring the cost of providing services, and the degree to which this cost is being recovered through user charges.

Generally accepted accounting principles GAAP for the Proprietary Funds Group are similar to those employed in private sector accounting. GASB Statement No. 34 and 62 ²⁰, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting," states that proprietary funds shall continue to follow FASB standards issued on or before November 30, 1989. However, from that date forward, proprietary funds have the option of either (1) choosing not to apply future FASB standards (including amendments of earlier pronouncements), or (2) continuing to follow new FASB pronouncements (unless they conflict with GASB guidance).

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

General Accounting Principles

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

Proprietary Funds Group 50

50 Enterprise Funds

51 Bookstore Fund

52 Cafeteria Fund

53 Farm Operations Fund

59 Other Enterprise Fund

Nature and Purpose

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

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

Accounting Principles

- District property, plant, and equipment may be reassigned from the governmental funds to an Enterprise Fund. Reassignment of assets without a corresponding transfer of money from the Enterprise Fund to the General Fund, should be recorded as contributed capital.
- The district may charge rent where it does not wish to reassign property, plant, and equipment. Such charges shall be treated as rental revenue to the General Fund and rent expense to the Enterprise Fund.
- Utilities and maintenance costs should be directly charged to the enterprise activity, where practical. However, if these costs are included in the rental charge the entire amount is treated as rent.
- Depreciation expense is being calculated for all depreciable assets (e.g., buildings and equipment) used in an enterprise activity. Depreciation expense is the systematic allocation of the cost of an asset (net of its estimated salvage value) over its useful life to

account for the estimated loss in value or service life of capital assets because of wear and tear through use, elapse of time, inadequacy, or obsolescence.

- The liabilities for compensated absences such as accrued vacation are recognized at full value when earned in Enterprise Funds.
- With adequate justification, Enterprise Funds may operate on a different fiscal year from the Governmental Funds.

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

50 Enterprise Subfunds

51 Bookstore Fund

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

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

52 Cafeteria Fund

The term "cafeteria" as used in this section is considered synonymous with the term "food service". The Cafeteria Fund is the fund designated to receive all moneys from the sale of food or for any other services performed by the cafeteria when it is the **intent** of the

governing board to recover, in whole or in part, the costs of providing the services (see also Cafeteria Fund, 32 under Special Revenue Funds). Costs incurred in the operation and maintenance of such are paid from this fund. If vending is an integral part of the district's food service, the activity should be recorded in this fund.

The food served "shall be sold to the patrons of the cafeteria at such a price as will pay the cost of maintaining the cafeteria, exclusive of the costs made a charge against the funds of the community college district by resolution of the governing board" (5 C.C.R. § 59013). "Costs made a charge against the funds of the community college district" may include the cost of housing and equipping the cafeteria and the cost of replacement of equipment and utilities if the governing board elects to subsidize such costs.

53 Farm Operations Fund

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

59 Other Enterprise Fund

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

Proprietary Funds Group 60

60 Internal Service Funds

61 Self-Insurance Fund

69 Other Internal Services Fund

Nature and Purpose

Internal Service Funds are used to account for the financing of goods or services provided by one department or organizational unit to other units on a cost-reimbursement. While the use of Internal Service Funds is not required under GAAP, they may be useful to identify and manage costs associated with particular services (e.g., self-insurance programs, duplicating and printing services, data processing, purchasing, motor pools, and central stores) and

allocating such costs to user departments. By using the full accrual basis of accounting and flow of economic resources measurement focus, they can measure and recover the full cost, including depreciation of capital assets, of providing goods and services.

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

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

Internal Service Subfunds

61 Self-Insurance Fund

The Self-Insurance Fund is the fund designated by Education Code section 81602 to account for income and expenditures of self-insurance programs authorized by Education Code section 72506(d). This fund is maintained in the county treasury and used to provide for payments on deductible types of insurance policies, losses or payments arising from self-insurance programs, and losses or payments due to noninsured perils.

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

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

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

Accounting Principles

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

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

- Common expenditures made by a Self-Insurance Fund include payment of claims which are charged to Object Account 5000, Self-Insurance Claims and payments to independent contractors for administrative services which are recorded in Object Account 5000, Personal and Consultant Services. Other costs incurred by a Self-Insurance Fund are charged to the appropriate expenditure account that describes the expenditure.
- When the Self-Insurance Fund covers loss of capital assets, the Self-Insurance Fund shall compensate the fund that originally incurred the expense. Such moneys received shall be recorded as Other Financing Sources - Proceeds of General Fixed Assets (Controlling Account 8910) subsidiary classification Compensation for Loss of General Fixed Assets, in the receiving fund; and as Object Account 5000, Self-Insurance claims in the Self-Insurance Fund. All other losses or claims covered by the Self-Insurance Fund may be paid directly from the Self-Insurance Fund or other funds of the district with reimbursement from the Self-Insurance Fund. Such reimbursement shall be abated against the original object of expenditure category in the receiving fund.
- Costs of insurance to provide coverage over and above self-insurance capabilities are to be recorded as insurance expenses of the Self-Insurance Fund, if paid from this fund.

- If amounts held in a Self-Insurance Fund are considered to be in excess of amounts required (based on actuarial experience or other appropriate cost projections), current or future charges to other funds may be reduced.
- If all funds of a district are combined to reflect total district revenues and expenditures, the Self-Insurance Fund revenues and expenditures are excluded, since such inclusion would overstate the totals. However, aggregate balance sheets (the combined general ledgers of all funds) would include the Self-Insurance Fund.
- The balance of the Self-Insurance Fund is restricted and cannot be considered a part of the working cash available to other funds of the district.

69 Other Internal Services Fund

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

FIDUCIARY FUNDS TYPE

70 Trust Funds

80 Custodial Funds (Previously known as Agency Funds)

General Description

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

The Fiduciary Funds Group is comprised of trust and custodial agency funds. The primary distinction between trust funds and custodial agency funds is that the district or college may exercise some discretion in the disbursement or expenditure of the moneys in the trust funds but does not have discretionary power or authority in custodial agency funds. For example, if a district receives a contribution for a scholarship in which the district determines the recipient, it should be recorded in the Scholarship and Loan Trust Fund. However, if the same contribution provided that the donor determines the recipient of the scholarship, it should be recorded in the Scholarship and Loan Custodial Agency Fund.

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

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

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

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

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

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

General Accounting Principles

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

Fiduciary Funds Group 70

70 Trust Funds

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

Nature and Purpose

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

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

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

Accounting Principles

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

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

Trust Subfunds

71 Associated Students Trust Fund

The Associated Students Trust Fund is used to account for moneys held in trust by the district for organized student body associations (excluding clubs) established pursuant to Education Code section 76060. In a multi-college district, such a fund may be established for each college's student body. Organized student body associations formed as auxiliary organizations under Education Code section 72670 et seq., fall under the guidance of the California Community Colleges Auxiliary Organizations Manual, published on the Chancellor's Office website. Copies are available from the Chancellor's Office.

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

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

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

In addition, the funds of a student body organization may be loaned or invested in the following ways: loaned, with or without interest, to any student body organization established in another community college of the district, for a period not to exceed three

years; or invested in permanent improvements to any community college district property. (Ed. Code, § 76064)

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

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

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

72 Student Representation Fee Trust Fund

The Student Representation Fee Trust Fund is required to be used to collect, track and report account for moneys collected funds pursuant to Education Code section 76060.5. Prior to 2014, colleges were allowed to establish a one-dollar student representation fee per semester. For student representation fees adopted between 2014 and 2019, the fee became two dollars per semester with one dollar of every fee provided to support statewide advocacy of the Student Senate for California Community Colleges, that provides for a student representation fee of one dollar per semester if approved by two-thirds of the students voting in the election. The election shall not be sufficient to establish the fee unless the number of students who vote in the election equals or exceeds the average of the number of students who voted in the previous three student body association elections. The fee is to be expended to provide for the support of governmental affairs representatives who may be stating their positions and viewpoints before city, county, and district governments and before offices and agencies of the State government. The district may charge a fee to recover its actual costs of administering these fees up to, but not more than, seven percent of the fees collected and deposited.

Beginning January 1, 2020, Education Code section 76060.5 requires mandatory collection by all colleges of a two-dollar (\$2) student representation fee, and students must be provided a method to opt out of paying the fee as described in California Code of Regulations, title 5, section 54805. One dollar (\$1) of every fee collected must be remitted to the California Community Colleges Chancellor's Office, less the cost of administering these fees, not to exceed 7%, by February 1 of each year to support statewide advocacy efforts of the Student Senate for California Community Colleges. The CCFS-311 Annual Budget and Financial Report collects information on the student representation fee and generates an annual invoice for each district.

Student Representation Fees retained at the college and district are to the fee is to be expended to provide for the support for of governmental affairs representatives who may be stating their positions and viewpoints before city, county, and district governments and before offices and agencies of the State government. The district may charge a fee to recover its actual cost of administering these fees up to, but not more than, 7% of the fees collected and deposited.

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

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

Student Representation Fee Trust Fund moneys shall be expended in accordance with procedures established by the student body organization consistent with the requirements of Education Code section 76063.

Each disbursement shall be subject to the approval of:

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

73 Student Body Center Fee Trust Fund

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

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

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

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

74 Student Financial Aid Trust Fund

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

Moneys for college work-study programs are not accounted for in the Student Financial Aid Trust Fund. While the objective of college work-study programs is to provide financial assistance to students, services must be performed by students as a condition for receiving the money. Such expenditures are salaries, not financial aid. Thus, for accounting and reporting purposes, the disbursement of work-study moneys (excluding match) is recorded

as General Fund, Subfund 12 Restricted expenditures for the activity descriptive of the services performed, rather than as student financial aid expenditures. Expenditure of matching moneys is recorded in the same way, but as General Fund, Subfund 11 Unrestricted expenditures.

Examples of aid accounted for as part of the Student Financial Aid Trust Fund include Pell Grants, Federal Supplemental Educational Opportunity Grants, Direct Student Loans, Nursing Loans, Bureau of Indian Education Scholarships and grants, Teacher Education Assistance for College and Higher Education Grant, Iraq and Afghanistan Service Grant, Scholarships Cal Grant B and C, and direct aid to students (loans and grants). Aid to Military Families and International Study. The Work-Study Job Program allows students to earn money to pay for school by working part-time. See appendix B

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

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

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

75 Scholarship and Loan Trust Fund

The Scholarship and Loan Trust Fund (referred to 5 C.C.R. § 59015) is used to account for such gifts, donations, bequests, and devises (subject to donor restrictions) which are to be used for scholarships or for grants in aid and loans to students. The Scholarship and Loan Trust Fund may be established and maintained in the county treasury or, as an alternative the governing board may establish separate bank accounts. Refer to Appendix A Special

Accounting Issues Special Accounting Applications for requirements concerning separate bank accounts.

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

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

All expenses in the administration of the fund including, but not limited to, operating costs, audits, and promotion of the fund are proper charges against the district's General Fund, Subfund 11 Unrestricted moneys. The annual budget of the district's General Fund shall include moneys for these expenses. California Code of Regulations, title 5, section 59015 requires that these funds be audited annually.

76 Investment Trust Fund

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

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

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

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

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

77 Deferred Compensation Trust Fund

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

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

79 Other Trust Funds

Other Trust Funds are used to account for all other moneys held in a trustee capacity by the college or district for individuals, organizations, or clubs. Such funds may be established and maintained in the appropriate county treasury, or as an alternative, the governing board may establish a bank or investment account for each trust. Refer to Appendix A Special Accounting Issues ~~Special Accounting Applications~~ for requirements concerning separate bank accounts.

Fiduciary Funds Group 80

80 Custodial Agency Funds

81 Student Clubs Custodial Agency Fund

82 Scholarship and Loan Custodial Agency Fund

83 Foundation Custodial Agency Fund

84 Joint Powers Agreement (JPA) Custodian Agency Fund

85 Deferred Compensation Custodial Agency Fund

89 Other Custodial Agency Funds

Nature and Purpose

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

- There is an agreement granting the district little or no discretionary authority.
- There are no contractual or regulatory conditions restricting the use of the funds or requiring the district to exercise a management role or report the results of operations in its financial statements.
- There is no compelling reason to measure operations (revenues, expenditures or expenses, and net position fund balance) and report the results in the district's financial statements. Examples of compelling reasons may include the materiality of the revenues and expenditures or expenses, or the usefulness of the information to the readers of the financial statements.

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

Accounting Principles

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

Custodial Agency Subfunds

81 Student Clubs Custodial Agency Fund

This fund is used to account for moneys of student clubs formed under Education Code section 76062. Student clubs that are organized under “associated students” should be accounted for as trust funds rather than custodial agency funds.

Student club moneys are to be deposited in a bank or banks, subject to the approval of the governing board. Such accounts must be insured by the Federal Deposit Insurance Corporation and must be named *(name of college) Student Clubs Custodial Agency Fund, (name of club) Club Account* (Ed. Code, § 76063).

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

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

82 Scholarship and Loan Custodial Agency Fund

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

83 Foundation Custodial Agency Fund

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

84 Joint Powers Agreement (JPA) Custodian Custodial Agency Fund

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

85 Deferred Compensation Custodial Agency Fund

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

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

89 Other Custodial Agency Funds

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

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

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