

SECTION 2.0 - FUNDAMENTAL ACCOUNTING POLICIES

2.1 Introduction

The financial statements of the College are prepared in accordance with accounting principles generally accepted in the United States of America, including all applicable effective statements of the Government Accounting Standards Board (“GASB”), using the economic resources measurement focus and the accrual basis of accounting.

The College adopted the following GASB Statements on July 01, 2002:

- GASB Statement No. 33, *Accounting and Financial Reporting for Non-exchange Transactions*.
- GASB Statement No. 35, *Basic Financial Statements-And Management’s Discussion and Analysis for Public Colleges and Universities*, an amendment of Statement No. 34, *Basic Financial Statements-and Management’s Discussion and Analysis-for State and Local Governments*
- GASB Statement No. 37, *Basic Financial Statements – and Management Discussion and Analysis—for State and Local Government: Omnibus*
- Statement No. 38, *Certain Financial Statement Note Disclosures*
- GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*.

2.2 Basis of Accounting

In order to provide control over College financial transactions and to ensure that all College business is reflected in financial reports, it is necessary to have an overall plan for the recording of financial activity. This must include (at a minimum) a ledger for recording accounting transactions; a chart of accounts for the proper and uniform classification of transactions; and correct, complete, and consistent financial reporting which includes the application of the two guides for college and university account accounting - College and University Business Administration (CUBA) and the American Institute of Certified Public Accountants (AICPA) Audit Guide.

The College maintains its books on the accrual basis. Accrual accounting means revenues are reported when earned and expenditures are reported when materials or sources are received. Expenses incurred after the balance sheet date are accrued and expenses applicable to future periods are deferred.

2.2.1 The mission, goals, and objectives of the College’s accounting function include:

- a. Providing financial advice and assistance to the Board of Directors, Chancellor and Dean, Chief Financial Officer, and other administrators.

- b. Monitoring all financial and budgetary transactions to ensure compliance with College policies and procedures, with provisions of governing laws and related statutory regulations, with the terms and conditions prescribed by external funding sources, and with generally accepted accounting principles. This responsibility includes administering all funds to ensure that expenditures are kept within amounts appropriated and that estimates of revenue are adjusted as required.
- c. Preparing and distributing financial reports and statements; including those for the College as well as those for Federal, State, and gift funds and for auxiliary and service enterprises; and preparing claims against funding agencies for reimbursement of expenditures incurred.
- d. Maintaining the College's general ledger, the official book of accounts, and other required accounting records. This responsibility includes assigning account numbers; processing budgetary, financial, and recording lien entries to properly reflect the transactions of campus funds; and closing the general ledger at fiscal year end.
- e. Collecting and depositing all funds due the College from students and others; recording all such activity in appropriate general ledger accounts.
- f. Operating the payroll system; including issuing paychecks, accounting for staff benefits and payroll deductions, maintaining budgetary control over salary appropriations, auditing departmental timekeeping; and maintaining sound internal control.
- g. Disbursing funds in payment of all non-payroll obligations, including purchases of goods and services, travel, and student aid.
- h. Reconciling all College bank accounts and investments; maintaining good internal controls over all cash transactions, including receipts and disbursements.
- i. Recording the settlement of all interdepartmental sales (recharges) by such units as the supply warehouse, bookstore, reprographics, and other College activities with authorized recharging operations.

2.3 Financial Accounting Structure

2.3.1 Introduction

This chapter explains the fund and account structure used by the College. The College is a nonprofit educational institution and uses fund accounting. Fund accounting as defined by the American Institute of Certified Public Accountants (AICPA) is the procedure by which resources for various purposes are classified for accounting and reporting purposes in accordance with activities or objectives as specified by donors, in accordance with regulations, restrictions, or limitations imposed by sources outside the institution, or in accordance with directions issued by the governing board.

GASB Statement No. 35, *Basic Financial Statements-And Management's Discussion and Analysis for Public Colleges and Universities*, an amendment of Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*, establishes a financial reporting model based on net assets, classified solely on the basis of donor-imposed restrictions, and requires not-for-profit organizations' external financial reporting to focus on aggregate information about the entity as a whole, rather than on individual funds.

Although fund accounting is not required by generally accepted accounting principles, the College will continue to use fund accounting for internal recordkeeping purposes.

A fund is an accounting entity with a self-balancing set of accounts for recording assets, liabilities, a fund balance, and changes in the fund balance. Separate accounts are maintained for each fund to insure observance of limitations and restrictions placed on the use of resources. For accounting and reporting purposes, however, funds of similar characteristics are combined into fund groups.

The fund groups used by the College are as follows:

- Current funds
- Loan funds
- Endowment and similar funds
- Plant funds
- Agency funds

2.3.2 Fund Definitions

The following definitions are from the Audits of Colleges and Universities:

a. Current Funds

The current funds group includes both current unrestricted and restricted funds. The current unrestricted group includes those economic resources of the institution, which are expendable for any purpose in performance of the primary objectives of the institution (i.e., instruction, research, public service) and which have not been designated by the governing board for other purposes.

Current unrestricted funds, which are restricted by the governing board to serve as loan or quasi-endowment funds, or to be expended or appropriated for plant purposes are titled 'designated current funds'.

The current restricted group includes those funds expendable for operating purposes but restricted by donors or other agencies as to the specific purpose for which they may be expended.

The current fund revenues include all unrestricted gifts and unrestricted resources earned during the reporting period and restricted current funds to the extent that such funds were expended for current operating purposes.

The current fund revenues generally include the following:

- Student tuition and fees
- State appropriated/general fund monies
- Unrestricted gifts
- Sales and services of auxiliary organizations (Bookstore, McAllister Tower Residential Apartments and Student Health Service)
- Other sources

b. Loan Funds

The loan funds group consists of loans to students . The terms of gift agreements usually specify that the funds operate on a revolving basis (i.e., repayments of principal and interest are loaned to other individuals).

c. Endowment and Similar Funds

The endowment and similar funds group generally include true endowment funds, term endowment funds, quasi-endowment funds, funds held in trust by others, and annuity and life income (or split-interest) funds (e.g., charitable lead and remainder trusts, charitable gift annuities and pooled (life) income funds).

- True Endowments - Endowment funds are funds with respect to which donors or other outside agencies have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity and invested for the purpose of producing present and future income which may either be expended or added to principal. The use of income from endowment funds is either restricted by the donor or determined by The Board of Directors.
- Term Endowments - Term endowment funds are similar to endowment funds except that, upon the passage of a stated period of time or the happening of a particular event, all or a part of the principal may be expended as directed by the Board of Directors.
- Funds Functioning as Endowments – Funds functioning as endowments, also known as “quasi-endowment” funds, are funds which the Board of Directors, rather than a donor or other outside agency, has determined are to be retained and invested. Since these funds are internally designated rather than externally restricted the Board of Directors has the right to decide at any time to expend the principal.
- Funds Held in Trust by Others
Funds held in trust by others are held and administered, at the direction of the donor, by an outside trustee for the benefit of Hastings. These funds are derived from private gifts and bequests and may be connected to a split-interest agreement or a permanent endowment¹.

Under certain circumstance, Hastings must record an estimate of the fair value of their beneficial interest of the assets held in trust. The fair value is measured as the present value of the estimated future distributions expected to be received over the expected term of the agreement.

Each agreement is evaluated to determine the appropriate treatment for financial accounting purposes. The College will not record an interest unless there is specific knowledge that its interests are irrevocable and that the ultimate distribution is not for a permanent endowment, except in certain circumstances.

¹ Per AICPA Audit and Accounting Guide, Not-For-Profit Organizations with Conforming Changes as of May 1, 2003; page 299.

College Relations is responsible for notifying General Counsel and the Office of Fiscal Services when the College has been named as a beneficiary in such agreements. Fiscal Services will consult with General Counsel to evaluate the terms of the agreement to determine the extent of the College's interest.

If it is determined for financial accounting purposes, that the College's beneficial interest shall be recorded; the change in fair value of that interest will be periodically updated. Annually, thereafter, Fiscal Services will, as part of the year-end financial statement audit, will establish the estimated current fair value of the College's interest.

These assets of the College will be disclosed separately from other assets in the audited financial statements and/or in the related footnotes.

Upon termination of the agreement, related asset and liability accounts should be closed with any remaining amounts recognized as changes in the value of the agreement

- Annuity and Life-Income (Split-Interest) Funds – This fund group is used to account for certain planned giving arrangements with donors who make contributions to the College under various agreements where the College receives benefits that may or may not be shared with other beneficiaries and where the College has been named as the trustee. These arrangements are also known as split-interest agreements.

The AICPA Audit and Accounting Guide for Not-for Profit Organizations defines life-income funds (split-interest agreements) as follows:

“Trust or other arrangements initiated by donors under which not-for-profit organizations receive benefits that are shared with either the donor or third party beneficiaries. These gifts include lead interests (charitable lead trusts) and remainder interests (charitable remainder trust, annuity gift and annuity trust).²

² American Institute of Certified Public Accountants (AICPA) Audit and Accounting Guide Not-for-Profit Organizations with Conforming Changes as of May 1, 2003; page 301.

The Regents of the University of California have agreed to serve as trustee for testamentary gifts to the College received under its planned giving program³. The Offices of the President and the Treasurer of UC are available to assist the College with the marketing, administration and asset management for the life income gift options. The five life income gift options, with the minimum funding levels and payments as set forth in the following general guidelines, include:

- Charitable Remainder Unitrust: A trust that pays the income beneficiary a percentage of its net asset value annually. These trusts are established with a minimum gift of \$100,000; additional contributions can be made at any time.
- Charitable Remainder Annuity Trust: A trust that pays a fixed dollar amount to the donor for life. These trusts are established with a minimum gift of \$100,000. No additional contributions can be made to an annuity trust.
- Charitable Gift Annuity: A planned giving vehicle offered that pays a fixed annuity for a specified period of time to the donor or to individuals or organizations designated by the donor. Gift annuities may be established with \$10,000 or more.
- Deferred Payment Gift Annuity: A planned giving vehicle that pays a fixed amount for life but the first payment may be deferred for a year or more from the date of the gift. The minimum donation is also \$10,000.
- Pooled Income Funds: Pooled income funds are comprised of the donations of many donors, which are combined for investment purposes. The Regents of the University of California for the benefit of donors currently operate two pooled income funds. These funds pay the donor or his/her designated beneficiary a pro rata share of the particular pooled income fund earnings each year for life. Upon the donor's death, the value of the assigned pro-rata share reverts to the College. Pooled income funds have a minimum of \$5,000 and may be increased in increments of \$1,000 or more at any time.

³ The Board of Directors approved the proposed resolution at its meeting on June 12, 1998.

Gifts proposed under any of the above options are subject to the financial review and acceptance of the University of California Treasurer's Office and the ultimate approval of the Hastings Board of Directors.

Funds established for the benefit of the College meeting the above described terms where the Regents of the University of California serve as the trustee will be recorded in the "funds held in trust by others" group.

d. Plant Funds

The plant funds group consists of (1) funds to be used for the acquisition of physical properties for institutional purposes but unexpended at the date of reporting; (2) funds set aside for the renewal and replacement of institutional properties; (3) funds set aside for debt service charges and for the retirement of indebtedness on institutional properties; and (4) funds expended for and thus invested in institutional properties.

e. Agency Funds

The agency funds group consists of funds held by the College as custodian or fiscal agent for others. Funds in this category include: Activity Fees for Student Organizations, the 1066 Foundation and certain funds of the Alumni Association.

2.3.3 Account Structure

The College uses the Colleague software system to record its financial transactions. The transactions are tracked by a 5⁴-digit account number or cost center, which defines the fund, program (department/account). Four additional digits, the object code, are added to provide further information about the type of transaction. The Office of Fiscal Services is responsible for maintaining the College's chart of accounts.

The 11-digit account number structure consists of elements (A-C).

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2 digits	5 digits	4 digits
Fund	Program	Object

⁴ This current chart of account structure became effective on July 1, 1992 when the College converted its financial management software from the Paciolan software system to Datatel's Colleague Financial System.

a. Fund - Type of Fund (Two Digits):

00-09 Current Unrestricted Funds

11 Current Unrestricted Designated Funds (Board defined)

12 Current Restricted Funds

20-29 Loan Funds

30-39 Endowment and Similar Funds

40-59 Plant Funds

60-69 Agency Funds

b. Program (Five Digits)

The generally accepted classification of revenues is by source (e.g., State of California, gifts, tuition and fees, auxiliary enterprises, etc). The generally accepted classification of expenditures is by function (e.g., instruction, student services, institutional support). Within each function category there must also be a provision for identifying organizational unit, activities, program/project or other designated cost centers. The program code provides the ability to accomplish all of the above identification requirements within a five-digit code.

Each program is a self-balancing entity consisting of its own assets, liabilities and, where appropriate, revenues and expenditures.

Fund Source (the first digit of the program):

1 State Funds/Student Fees

5 Private Contracts

2 Federal Funds

6 Other Sources

3 Private Gifts

7 Auxiliary Enterprises

4 Private Grants

8 Agency Funds

Program Function (second digit of the program):

0 Balance Sheet

1 Instruction and Research

2 Public and Professional Services

3 Academic Support

4 Student Services

5 Institutional Support

6 Operation & Maintenance of Plant

7 Auxiliary Enterprises

8 Financial Aid

9 Capital Outlay/Unallocated Funds

. Specific Program/Department (the third through fifth digits of the program) – these are various combinations of numbers which identifies the specific department, unit or cost center within the major function category.

c. Object Codes (Four Digits)

The College uses an object code to classify assets, liabilities, fund balances, revenues and other additions and expenditures and other deductions. The object code follows the 7-digit account number. Exhibit B defines the commonly-used object codes.

Object Code Classifications (the first digit of the object code):

- 1 – Assets
- 2 – Liabilities
- 3 – Fund Balances
- 4 – Revenue
- 5 – Expenditures