

SECTION I--GOVERNMENTAL ACCOUNTING

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Fund Accounting

Statute indicates resources which a school is permitted to receive and expressly and/or implicitly states the purposes for which those resources may be used. The accounting system used by a school should provide for legal compliance; that is, resources are received and spent according to law. For this reason, schools have evolved a means of indicating legal compliance by use of "fund accounting."

The Governmental Accounting Standards Board has defined the term "fund" as follows:

A fund is a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.

The diverse nature of a school's operations and the necessity of determining legal compliance preclude a single set of accounts for recording and summarizing all the financial transactions. Instead, the required accounts are organized on the basis of funds, each of which is completely independent of any other. Each fund must be so accounted for that the identity of its resources, obligations, revenues, expenditures, and fund equities is continually maintained. These purposes are accomplished by providing a complete self-balancing set of accounts for each fund which shows its assets, liabilities, fund balances or net position, revenues and expenditures/expenses.

An account is defined as a formal record of a particular type of transaction. A group of accounts comprises a ledger. Similarly, a group of accounts consisting of all accounts required to describe the financial condition and results of an entity operation comprise a general ledger.

In the private-sector, even complex businesses generally are presented in external financial reports as a single, unitary entity. For example, data from a parent company are merged with data from that company's subsidiaries to create a single, consolidated entity for financial reporting purposes. State and Local governments, on the other hand, have prepared combined (rather than consolidated) financial statements that focus on groups of related funds (fund types and account groups), rather than on the government as a whole. Fund accounting for state and local governments has its historical roots in the desire of state and local governments to ensure and demonstrate legal compliance with internal (budgetary) and external limitations (grantors and creditors) placed upon the use of resources.