

FUNDS IN STATE GOVERNMENT

(Fund Condition Statements and Transfers/Loans)

I. INTRODUCTION

A major difference between government finance and that of the private sector is that governments typically maintain fiscal accountability by funds while the private sector, whether it be a large corporation or a small company, maintains a single accountability for the entire business.

In government, a fund is established authority provided by law. Each fund is a separate legal entity. The law provides for deposit of revenues to specific funds and expenditures are made there from only pursuant to appropriations made by law which are identified to specific funds. Each fund has its own "set of books" and financial statements.

The Governor, the Legislature, central control agencies (such as the Department of Finance, State Controller's Office, and State Treasurer's Office) and operating departments all participate in the management of state funds. The ultimate goal is to manage the funds in a manner that will provide maximum benefit to the general public and constituent groups who contribute resources to specific funds.

II. ESTABLISHING FUNDS IN CALIFORNIA

A. *Creation*

There are more than 1100 funds in California state government which have been created by one of the following three methods.

- **Legislation** - This is the most common method of creation. The statute will generally specify a fund's sources of revenues and specify the purposes for which expenditures may be made.
- **Administrative Action** - Government Code Section 13306 authorizes the Department of Finance (Finance) to establish a fund with the concurrence of the State Controller's Office (SCO).
- **Initiative** - This method requires a majority vote of a ballot measure (Proposition), proposed by the electorate or the Legislature, to become law. Proposals from the Legislature may be a bond, Constitutional, or legislative initiative.

B. *Funds Manual* – Finance maintains a funds manual which provides information on the legal authority establishing a fund, its revenues, its authority for disbursements, etc. This information is available on the Finance Website at <http://www.dof.ca.gov/html/calstars/fundsman.htm>

III. CLASSIFICATION OF FUNDS IN CALIFORNIA

A. *Legal Basis – Budgetary Display*

For budgetary purposes, funds are classified according to the following five classes of funds.

G = General Fund – Per Government Code Section 16300, the General Fund is used to budget for revenues not specifically designated to be accounted for by any other fund. The primary sources of revenue are personal income tax, sales tax, and bank and corporation tax.

S = Special Funds – Used to budget for taxes, licenses, and fees that are restricted by law for particular activities of government.

N = Nongovernmental Funds – Used to budget for revenues from other than general or special taxes, licensees, and fees or other state revenues (excluding bond proceeds and federal receipts)

B = Bond – Used to budget for proceeds of general obligation bond authorizations.

F = Federal Funds – Used to budget for all grant monies received in trust from an agency of the federal government.

The following information is provided in the annual Governor's Budget Summary appendix pages regarding the classification of funds:

- [Glossary of Budget Terms](#) - includes definitions for Federal Funds, Fund, Fund Condition Statement, General Fund, Special Funds, Reserve, Revenue and Transfers.
- Summary Schedules 1, 7, 8, 9, and 10 - provide information on expenditures, revenues and fund condition statements. For **Adobe Acrobat Reader viewing and printing**, go to: http://www.dof.ca.gov/html/bud_docs/backinfo.htm

B. *Legal Basis – Accounting Display*

This basis of classifying state funds for accounting purposes first divides the funds into two broad groups - **governmental cost funds** and **nongovernmental cost funds**. Governmental cost funds are basically those funds which receive revenues in the form of taxes, licenses and fees. These revenues are generated for the purpose of providing services, i.e., paying for the "cost of government". Nongovernmental cost funds derive their resources from sources other than taxes, licenses, and fees. They are described in more detail below.

1. Governmental Cost Funds

- a. General Fund - provides for the predominant part of funding state government programs. Government Code 16300 provides that the General Fund consists of moneys not required by law to be deposited into any other fund.
- b. General Fund Special Accounts - These are no different than "Other Governmental Cost Funds" described below. Government Code Section 13303 states that all accounts, special accounts and funds in the General Fund shall, for accounting and budgeting purposes, be excluded from General Fund financial statements.
- c. Transportation Funds - To record transactions related to motor vehicle taxes.
- d. Feeder Funds - For collection of major taxes prior to clearance to the General Fund.
- e. Other Governmental Cost Funds - To record transactions for all other special funds, i.e. those funds other than (a) through (d) with proceeds of taxes, licenses, and fees which are restricted by law for specific purposes.

2. Nongovernmental Cost Funds

- a. Public Service Enterprise Funds — To account for the transactions of state-operated enterprises which render services primarily to the public for a charge.
- b. Working Capital and Revolving Fund — To account for the internal service activities rendered by a state agency for other state agencies or local governments.
- c. Bond Funds — To record the proceeds from the sale of general obligation bonds and the expenditure for acquisitions of property, capital outlay, or loans to local agencies for the same purpose.
- d. Retirement Funds — To account for contributions received by various retirement systems, the investment of these moneys, retirement allowances and refunds to members.
- e. Trust and Agency—To account for moneys and properties which are received and are disbursed by the state as trustee or custodian.

A. GAAP Basis

In addition to the Legal Basis, funds in the State of California are classified in accordance with the Generally Accepted Accounting Principles (GAAP). Chapter 1286, Statutes of 1984 requires the state to conform its financial management system to GAAP. However, this law provides that this conformity will be to the extent that Finance deems it to be in the best interest of the state.

The SCO classifies funds in accordance with GAAP and prepares annual financial statements on both a GAAP and Legal bases.

IV. FUND CONDITION STATEMENTS – Budgetary Display

A. General

The Fund Condition Statement provides a summary of a fund. The statements included in the Governor's Budget provide a three year presentation - the past year, current year, and budget year. Fund Condition Statements are included in the Governor's Budget for every special fund. For other funds, statements are included on the basis of interest and need, as determined by Finance. The Governor's Budget Index of Funds includes the funds that have Fund Condition Statement displays with a reference to the budget in which they are displayed.

B. Basic Components

1. Beginning Fund Balance
2. Prior Year Adjustments
3. Revenues, Transfers, and Loans (must agree with Schedule 10Rs)
4. Expenditures (must agree with Schedule 10s)
5. Ending Fund Balance

Special Fund for Economic Uncertainties (General Fund)

Reserve for Economic Uncertainties (Special Funds)

Other Reserves, as appropriate (e.g. Reserve for Liquidation of Encumbrances)

C. Management of Funds

Finance designates an administering organization for each fund. This organization oversees the operations of the fund. The administering organization for each fund also prepares financial statements, Fund Condition Statements, and other budget documents. The Legislature and Finance play a major role in the budgetary aspects of a fund. The SCO and the State Treasurer's Office participate in the disbursement and investment of a fund's resources.

Many funds have multiple departments involved in its operation. For example, the Department of Fish and Game oversees the Fish and Game Preservation Fund and the Department of Motor Vehicles oversees the Motor Vehicle Account in the State Transportation Fund. However, the General Fund is the predominant fund with multiple departments involved in both revenue collection and expenditure. The Budget Operations Support Unit in Finance has overall responsibility for monitoring and preparing the Fund Condition Statement for the General Fund.

The SCO Annual Report includes a fund condition statement for the past year. The SCO refers to a fund condition statement as a "Statement of Operations". Finance reconciles the General Fund past year amounts shown in the Governor's Budget to the SCO preliminary

statements. The department that has been designated as the administering organization for other funds is responsible for reconciling past year amounts displayed in the Governor's Budget with the SCO data.

In addition, the role of all the participants in managing funds is to ensure that fund resources are utilized to provide services, to meet statutory responsibilities in an efficient manner, and to maintain a prudent reserve to meet unforeseen contingencies and emergencies.

V. TRANSFERS AND LOANS – Budgetary Display

The basic components of a fund condition statement (IV.B) are relatively straight-forward. However, transactions involving transfers and loans are often confusing as they may be treated as either an "expenditure" or a "revenue" depending on the circumstances and the funds involved.

A. *Treatment of Transfers Between Funds*

Generally, the disbursement (transfer) of money from one fund to another is recorded as an expenditure (**expenditure transfer**). However, exceptions exist where the transfers are treated as **revenue transfers**.

1. *Rules for Transfers Between Funds*

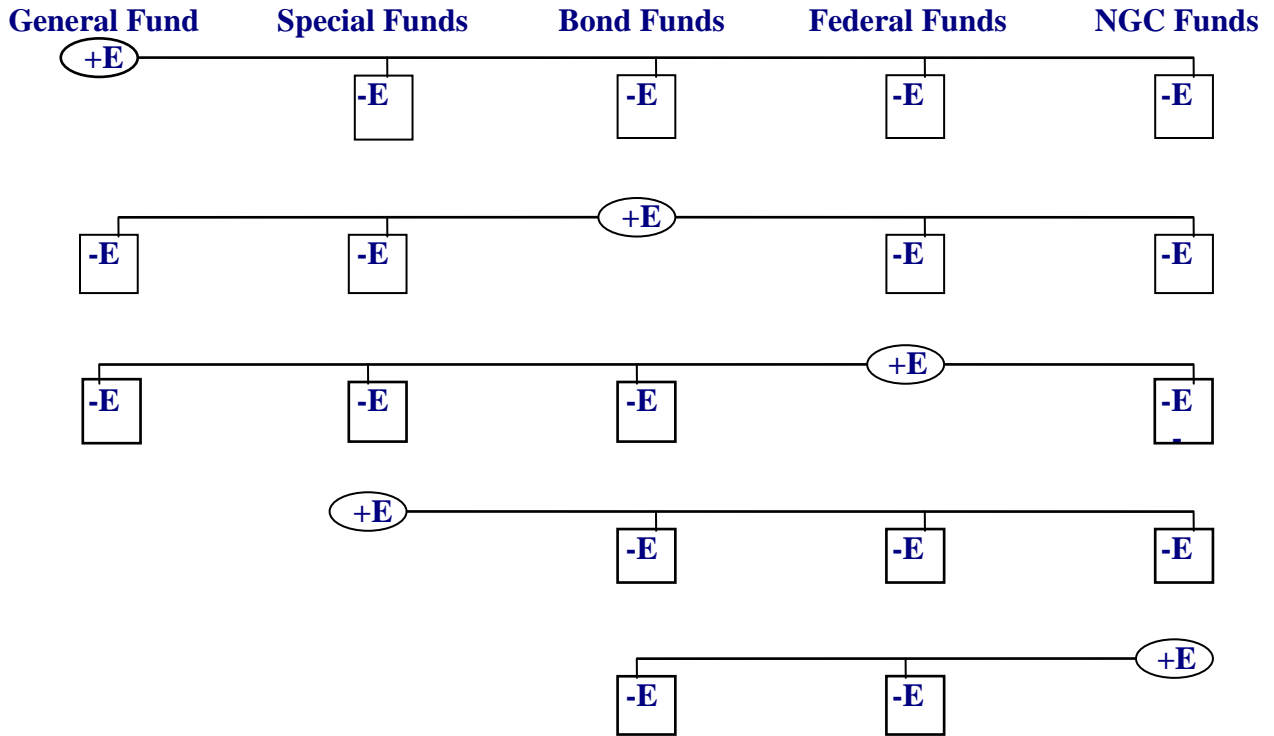
- a. All transfers from the General Fund are treated as **expenditure transfers**.
- b. Transfers from Bond Funds are treated as **expenditure transfers** except a transfer from a Bond Fund to another Bond Fund is treated as a **revenue transfer**.
- c. Transfers from Federal Funds are treated as **expenditure transfers** except a transfer from one Federal Fund to another Federal Fund is treated as a **revenue transfer**.
- d. Transfers from special funds are treated differently depending on the fund class of the fund receiving the cash.
 - Transfers from Special Funds to Bond Funds, Federal Funds, and Nongovernmental Funds are treated as **expenditure transfers**.
 - Transfers from Special Funds to the General Fund or other Special Funds are treated as **revenue transfers**.
- e. Transfers from Nongovernmental Funds are also treated differently depending on the fund class receiving the cash.
 - Transfers from Nongovernmental Funds to Bond Funds and Federal Funds are treated as **expenditure transfers**.
 - Transfers from Nongovernmental Funds to Special Funds, the General Fund, and another Nongovernmental Fund are treated as **revenue transfers**.

These rules apply to preparation of the Budget, the Change Book process, and to the fiscal summary of bill analyses.

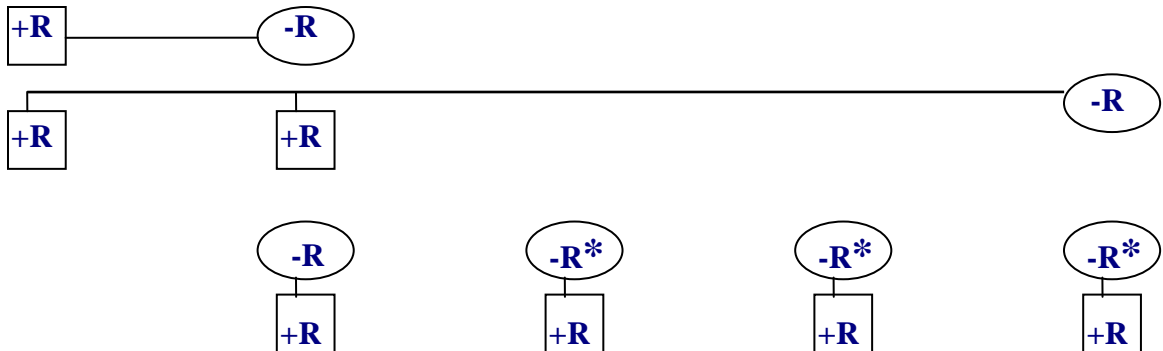
- f. The following chart for transfers between funds summarizes the above rules.

TREATMENT OF TRANSFERS BETWEEN FUNDS

"EXPENDITURE" TRANSFERS



"REVENUE" TRANSFERS



○ = The fund classification from which money is transferred.

* = These transfers (e.g., Bond to Bond, Federal to Federal, NGC to NGC) are not tracked in the Revenue (Schedule 10R) system.

B. Treatment of Loans

The budgeting treatment for loans is not determined by the fund class but rather by the type of loan. In addition, the term of the loan does not affect the budgeting treatment of the loan.

1. Program Loans (expenditures)

Program loans are loans made by state departments to parties external to the state. These loans are authorized in statute typically as an on-going activity of the state department. Program loans are budgeted as an expenditure when the loan is made. Repayment of the program loan principal amounts are, with a few exceptions, budgeted as a minus expenditure. Interest received pursuant to a program loan repayment is recorded as revenue on a Supplementary Schedule of Revenues and Transfers (Schedule 10R). Program loan disbursement and principal repayments are reported as a Supplementary Schedule of Appropriations (Schedule 10) transaction.

2. Loans Between Funds (revenue transfers)

Loans between funds are loans made from one fund in the State Treasury to another fund in the State Treasury pursuant to Budget Act or other statutory authority. Loans between funds are treated in the budgetary process as a revenue transfer. When the loan is disbursed, the revenue is reduced in the fund loaning the money and the revenue is increased in the fund receiving the money. Loan repayments are reflected as a reversal of that entry. If there is to be interest charged, the interest must be shown as **revenue** to the loaning fund and as an **expenditure (Schedule 10)** to the borrowing fund. Loans between funds are reported on a Supplementary Schedule of Revenues and Transfers (Schedule 10R).