**FUNDS IN STATE GOVERNMENT
(Fund Condition Statements and Transfers/Loans)**

1. **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 legal budgeting and accounting entity. The law provides for deposit of revenues to specific funds and expenditures are made from there 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 [SCO], and State Treasurer’s Office [STO]) 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.

1. **ESTABLISHING FUNDS IN CALIFORNIA**
2. **Creation**

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

* **Legislation—T**his 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 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.
1. ***Funds Manual*—F**inance 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://df2x2.dof.finance/budget/manual\_state\_funds/index.html.
2. **CLASSIFICATION OF FUNDS IN CALIFORNIA**
3. **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 revenues are personal income tax, sales and use tax, 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 Cost Funds—Used to budget for revenues from other than general or special taxes, licensees, and fees or other state revenues (excluding non-self-liquidating general obligation bond proceeds and federal receipts)

B = Bond—Used to budget for proceeds of non-self-liquidating general obligation bonds.

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 and Accounting Terms—includes definitions such as Federal Funds, Fund, Fund Condition Statement, General Fund, Special Funds, Reserve, Revenues, and Transfers.
* Summary Schedules 1, 8, 9, and 10—provide information on expenditures, revenues, and fund condition statements. For additional information go to http://df2x2.dof.finance/budget/CA\_Budget\_Information/index.html

**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***
2. 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.
3. General Fund Special Accounts—These funds are created for the
same purposes as "Other Governmental Cost Funds" described below, however, the legislation creating the fund specifies that the fund is an “account within the General Fund.” 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.
4. Transportation Funds—To record transactions related to motor
vehicle taxes.
5. Feeder Funds—For collection of major taxes prior to clearance
to the General Fund.
6. 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.
7. ***Nongovernmental Cost Funds***
8. Public Service Enterprise Funds—To account for the transactions of
state-operated enterprises, which render services primarily to the public
for a charge.
9. Working Capital and Revolving Funds—To account for the internal
service activities rendered by a state agency for other state agencies
or local governments.
10. Bond Funds—To record the proceeds from the sale of
non-self-liquidating general obligation bonds and the expenditure
for acquisitions of property, capital outlay, or loans to local agencies
for the same purpose.
11. Retirement Funds—To account for contributions received by various retirement systems, the investment of these moneys, retirement allowances and refunds to members.
12. Trust and Agency Funds—To account for moneys and properties, which are received and are disbursed by the state as trustee or custodian.

**C. GAAP Basis**

In addition to the Legal Basis, funds in the State of California are classified in accordance with the governmental generally accepted accounting principles (GAAP) (GC 13306). 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.

1. **FUND CONDITION STATEMENTS—Budgetary Display**
2. **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.

1. **Basic Components**
2. Beginning Fund Balance
3. Prior Year Adjustments
4. Revenues, Transfers, and Loans
5. Expenditures
6. Ending Fund Balance
7. Special Fund for Economic Uncertainties (General Fund)
8. Reserve for Economic Uncertainties (Special Funds)
9. Other Reserves, as appropriate
(e.g., Reserve for Liquidation of Encumbrances)
10. **Management of Funds**

Finance designates an administering department for each fund.
The administering department is responsible for the overall management
of the fund and is indicated in the fund description in the Manual of State Funds. The administering department for each fund also prepares financial statements, Fund Condition Statements, and other budget documents. The shared fund users provide the designated fund administrator of each fund
with all necessary information to assist in the overall
fund management.

The Legislature and Finance play a major role in the budgetary aspects of a fund. The SCO and the STO participate in the disbursement and investment of a fund’s resources.

Many funds have multiple departments involved in its operation, which designates the fund as a shared fund. For example, the Department of Fish and Wildlife 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 Budgetary/Legal Basis 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.

For more information on the roles and responsibilities of fund administrators, see BL 15-03 and SAM 7921.

1. **TRANSFERS AND LOANS—Budgetary Display**

The basic components of a fund condition statement (IV.B) are relatively straightforward. 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***
	1. All transfers from the General Fund are treated as **expenditure transfers**.
	2. 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**.
	3. 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**.
	4. 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 cost funds are treated as **expenditure transfers.**
* Transfers from special funds to the General Fund or other special funds
are treated as **revenue transfers**.
1. Transfers from nongovernmental cost funds are also treated differently depending on the fund class receiving the cash.
* Transfers from nongovernmental cost funds to bond funds and federal funds are treated as **expenditure transfers**.
* Transfers from nongovernmental cost funds to special funds, the
General Fund, and another nongovernmental cost fund are treated as **revenue** **transfers**.

These rules apply to preparation of the Budget and to the fiscal summary of
bill analyses.

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

**TREATMENT OF TRANSFERS BETWEEN FUNDS**

***"EXPENDITURE" TRANSFERS***

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **General Fund** | **Special Funds** | **Bond Funds** | **Federal Funds** | **NGC Funds** |
| **+E** |  |  |  |  |
|  | **-E** | **-E** | **-E** | **-E** |
|  |  |  |  |  |
|  |  |  |  |  |
|  |  | **+E** |  |  |
| **-E** | **-E** |  | **-E** | **-E** |
|  |  |  |  |  |
|  |  |  |  |  |
|  |  |  | **+E** |  |
| **-E** | **-E** | **-E** |  | **-E** |
|  |  |  |  | **-** |
|  |  |  |  |  |
|  | **+E** |  |  |  |
|  |  | **-E** | **-E** | **-E** |
|  |  |  |  |  |
|  |  |  |  |  |
|  |  |  |  | **+E** |
|  |  | **-E** | **-E** |  |
|  |  |  |  |  |

|  |
| --- |
| ***"REVENUE" TRANSFERS*** |
|  |
| **+R** | **-R** |  |  |  |
|  |  |  |  |  |
|  |  |  |  | **-R** |
| **+R** | **+R** |  |  |  |
|  |  |  |  |  |
|  |  |  |  |  |
|  |  **-R** |  **-R** |  **-R** |  **-R** |
|  |  |  |  |  |
|  | **+R**  | **+R** | **+R** | **+R** |
|  |  |  |  |  |
|  |  |  |  |  |
|  | **=** | The fund classification from which money is transferred. |
|  |  |  |

1. **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. Repayments 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.

1. ***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** to the borrowing fund.

(October 2015) (BOS)