Dave Yost
Auditor of State

Ohio Auditor of State
Dave Yost

Fund Accounting

Presented by:
Local Government Services

www.auditor.state.oh.us

Course Objectives

- Answer the following questions:
  - What is Fund Accounting?
  - Why use Fund Accounting?
  - How does Fund Accounting work?
  - Different types of Funds
  - Why and how do you create a new Fund?

What is Fund Accounting?

- Fund accounting is the activity of analyzing, recording, summarizing, reporting, and interpreting the financial transactions of governments.
- This is accomplished through the use of Funds.

Okay, So What is a Fund?

- 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 balances, which are segregated for the purposes of carrying on specific activities in accordance with specific regulations, restrictions, or limitations.

WHAT????

Interpretation Please!!

- A fund segregates the monies of the entity according to legal or purpose restrictions.

Why Fund Accounting?

- Fund accounting is the way governments track revenues with purpose restrictions against the expenditures made for those purposes.
- Fund accounting makes it easier to identify which monies are available for specific purposes.

How Funds Work

- Villages generally have one checking account that is used for all funds.
- How does the Village know how much of the checking account balance is allocated to each fund?

How Funds Work

- A proper cashbook or cash journal is essential (see Appendix A)
  - Separate columns for receipts, disbursements, and fund balances for each fund
  - Total columns for receipts, disbursements, and fund balances

There are 3 different fund types:

- Governmental Funds
- Proprietary Funds
- Fiduciary Funds

Governmental Funds

- General Fund
- Special Revenue Funds
- Debt Service Funds
- Capital Projects Funds

General Fund

- The operating fund of the government, used to account for all financial resources except those required to be accounted for in another fund. The general fund balance is available to the government for any purpose provided it is disbursed or transferred in accordance with Ohio law.

Special Revenue Funds

- Used to account for the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.

Debt Service Funds

- Used to account for financial resources that are restricted, committed, or assigned to expenditure for principal and interest.

Capital Projects Funds

- Used to account for financial resources that are restricted, committed, or assigned to expenditure for the acquisition or construction of capital facilities and/or other capital assets.

Permanent Funds

- Used to account for the financial resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that benefit the government or its citizens.

Proprietary Funds

- Enterprise Funds
- Internal Service Funds

Enterprise Funds

- Used to account for any activity for which a fee is charged to external users for goods or services.

Internal Service Funds

- Used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the governmental unit, or to other governmental units, on a cost-reimbursement basis.

Fiduciary Funds

- Used to report assets held in a trustee capacity for others and cannot be used to support the government's own programs.
  - Pension Trust
  - Investment Trust
  - Private Purpose Trust
  - Agency

Pension Trust

Used to report resources that are required to be held in trust for the members and beneficiaries of defined benefit pension plans, defined contribution plans, other postemployment benefit plans, or other employee benefit plans.

Investment Trust

Used to account for the financial resources of an external investment pool that the government sponsors.

– Somewhat Rare

Private Purpose Trust

Used to report all trust arrangements, other than those properly reported in pension or investment trust funds, under which principal and income benefit individuals, private organizations, or other governments.

Agency

Purely custodial in nature.

The Village collects money on behalf of another entity and then remits the money to them.

Why Create New Funds

- You have a new source of money that is legally or contractually required to be recorded separately from the other funds or is restricted by an outside resource provider.

Why Create New Funds

- Example: The Village receives a donation, in which the donator specifies for what purpose the money can be spent. The fund type will be determined by the purpose of the expenditure.

How to Create a New Fund

- Look to AOS Bulletin 99-006 for guidance (see Appendix B)
- If it is not established by law, (ORC 5705.09 - referred to in Appendix B) either specifically, or in general, permission to establish a new fund comes from the Auditor of State's Office.

AOS Permission

- Required under the following circumstances:
  - When management has to capture additional financial information about a specific revenue source or activity; or
  - When the fund will be used to account for restricted gifts or bequests that will not be held in trust.

Ohio Auditor of State
Dave Yost
www.auditor.state.oh.us

AOS Approval

New and separate funds are justified:

- When the fund will provide information that can't be obtained with the addition of accounts within an already existing fund, or
- When it is necessary to demonstrate compliance with legal or contractual restrictions.

Ohio Auditor of State
Dave Yost
www.auditor.state.oh.us

Dave Yost
Auditor of State

88 East Broad Street
Columbus, Ohio 43215

Phone: (800) 282-0370 Fax: (614) 466-4490
E-mail: contactus@auditor.state.oh.us

www.auditor.state.oh.us

Any Village
Cash Journal
9/30/2004

Receipts	Expenditures	Balances	Date	Particulars	Receipts #	Warrant #	Fund
		$ 74,274.00	09/01/04	Opening Balances			
2,312.50		76,586.50	09/05/04	MVL TAX	831		2011
187.50		76,774.00	09/05/04	MVL TAX	831		2021
	1,500.00	75,274.00	09/01/04	BUGS BUNNY		7350	1000
	1,000.00	74,274.00	09/01/04	TOM		7351	2011
	5,000.00	69,274.00	09/02/04	JERRY		7352	1000
	2,500.00	66,774.00	09/02/04	SYLVESTER		7353	2011
	200.00	66,574.00	09/02/04	TWEETY		7354	1000
	350.00	66,224.00	09/02/04	MICKEY MOUSE		7355	2011
	500.00	65,724.00	09/05/04	MINNIE MOUSE		7356	2021
	500.00	65,224.00	09/05/04	GOOFEY		7357	2011
	500.00	64,724.00	09/05/04	PLUTO		7358	2011
	450.00	64,274.00	09/05/04	DONALD DUCK		7359	2021
	1,000.00	63,274.00	09/05/04	DAISY DUCK		7360	1000
	18.00	63,256.00	09/05/04	WINNIE THE POOH		7361	2021
	525.00	62,731.00	09/08/04	TIGGER		7362	2011
	200.00	62,531.00	09/08/04	PIGLET		7363	1000
	500.00	62,031.00	09/08/04	RABBIT		7364	2021
	1,000.00	61,031.00	09/08/04	ROO		7365	1000
	750.00	60,281.00	09/08/04	OWL		7366	2021
36,250.00		96,531.00	09/15/04	LOCAL GOVERNMENT REVENUE	832		1000
	100.00	96,431.00	09/10/04	ROAD RUNNER		7367	1000
	100.00	96,331.00	09/10/04	WIL E. COYOTE		7368	2011
500.00		96,831.00	09/30/04	PERMITS	834		1000
	2,500.00	94,331.00	09/10/04	ELMER FUDD		7369	2011
	750.00	93,581.00	09/10/04	PORKY PIG		7370	1000
	125.00	93,456.00	09/10/04	SPONGE BOB		7371	2011
	250.00	93,206.00	09/15/04	GEORGE JETSON		7372	1000
	2,800.00	90,406.00	09/15/04	ASTRO		7373	2021
	1,000.00	89,406.00	09/15/04	JANE		7374	1000
	150.00	89,256.00	09/15/04	BARNEY RUBBLE		7375	1000
	250.00	89,006.00	09/15/04	FRED FLINTSTONE		7376	1000
	750.00	88,256.00	09/18/04	DINO		7377	2011
	1,250.00	87,006.00	09/18/04	PEBBLES		7378	1000
	500.00	86,506.00	09/18/04	BAMBAM		7379	2021
	1,500.00	85,006.00	09/18/04	SCOOBY DOO		7380	1000
	250.00	84,756.00	09/18/04	SHAGGY		7381	2021
	1,250.00	83,506.00	09/18/04	NEMO		7382	1000
5,000.00		88,506.00	09/30/04	TRANSFERS IN			2021
	5,000.00	83,506.00	09/30/04	TRANSFERS OUT			1000
	18.00	83,488.00	09/30/04	SERVICE CHARGE			1000
610.00		84,098.00	09/30/04	INTEREST	835		1000
		84,098.00	09/30/04	INTEREST	835		2011
		84,098.00	09/30/04	INTEREST	835		2021
$44,860.00	$ 35,036.00	$ 84,098.00		TOTALS			

General Fund		Ongoing	Street Maintenance		Ongoing	State Highway		Ongoing
Expenditures	Receipts	Balance	Expenditures	Receipts	Balance	Expenditures	Receipts	Balance
		$ 37,398.00			$ 6,177.00			$ 30,699.00
		37,398.00		2,312.50	8,489.50			30,699.00
		37,398.00			8,489.50		187.50	30,886.50
1,500.00		35,898.00			8,489.50			30,886.50
		35,898.00	1,000.00		7,489.50			30,886.50
5,000.00		30,898.00			7,489.50			30,886.50
		30,898.00	2,500.00		4,989.50			30,886.50
200.00		30,698.00			4,989.50			30,886.50
		30,698.00	350.00		4,639.50			30,886.50
		30,698.00			4,639.50	500.00		30,386.50
		30,698.00	500.00		4,139.50			30,386.50
		30,698.00	500.00		3,639.50			30,386.50
		30,698.00			3,639.50	450.00		29,936.50
1,000.00		29,698.00			3,639.50			29,936.50
		29,698.00			3,639.50	18.00		29,918.50
		29,698.00	525.00		3,114.50			29,918.50
200.00		29,498.00			3,114.50			29,918.50
		29,498.00			3,114.50	500.00		29,418.50
1,000.00		28,498.00			3,114.50			29,418.50
		28,498.00			3,114.50	750.00		28,668.50
	36,250.00	64,748.00			3,114.50			28,668.50
100.00		64,648.00			3,114.50			28,668.50
		64,648.00	100.00		3,014.50			28,668.50
	500.00	65,148.00			3,014.50			28,668.50
		65,148.00	2,500.00		514.50			28,668.50
750.00		64,398.00			514.50			28,668.50
		64,398.00	125.00		389.50			28,668.50
250.00		64,148.00			389.50			28,668.50
		64,148.00			389.50	2,800.00		25,868.50
1,000.00		63,148.00			389.50			25,868.50
	-150.00	62,998.00			389.50			25,868.50
250.00		62,748.00			389.50			25,868.50
		62,748.00	750.00		-360.50			25,868.50
1,250.00		61,498.00			-360.50			25,868.50
		61,498.00			-360.50	500.00		25,368.50
1,500.00		59,998.00			-360.50			25,368.50
		59,998.00			-360.50	250.00		25,118.50
1,250.00		58,748.00			-360.50			25,118.50
		58,748.00			-360.50		5,000.00	30,118.50
5,000.00		53,748.00			-360.50			30,118.50
18.00		53,730.00			-360.50			30,118.50
	311.10	54,041.10			-360.50			30,118.50
		54,041.10		48.80	-311.70			30,118.50
		54,041.10			-311.70		250.10	30,368.60
$ 20,268.00	$36,911.10	$ 54,041.10	$ 8,850.00	$ 2,361.30	$ (311.70)	$ 5,768.00	$ 5,437.60	$ 30,368.60

AUDITOR OF STATE BULLETIN 99-006
APRIL 6, 1999

TO: Fiscal Officer of All Subdivisions
All Independent Public Accountants

SUBJECT: Requests for New Funds

The Auditor of State receives numerous requests to establish new funds under the provisions of Ohio Rev. Code §5705.12 which states:

> In addition to the funds provided for by sections 5705.09, 5705.121, 5705.13, and 5705.131 of the Revised Code, the taxing authority of a subdivision may establish, with the approval of and in the manner prescribed by the auditor of state, such other funds as are desirable, and may provide by ordinance or resolution that money derived from specified sources other than the general property tax shall be paid directly into such funds. The auditor of state shall consult with the tax commissioner before approving such funds.

The purpose of this Bulletin is to identify when a request under this code section is required and when a local government may create a new fund without the Auditor of State's approval.

When Requests are Unnecessary

Approval to establish a new fund is unnecessary when the creation of the desired fund is already authorized or required by statute. Whenever the creation of a fund is authorized or required by statute, either specifically by name, or in general, a separate letter requesting permission to establish the fund is not required.

Examples of specific statutory requirements are found in Ohio Rev. Code §3313.81, which requires that school districts establish food service funds, and in Ohio Rev. Code §5747.50, which requires that each county establish an undivided local government fund. Similar statutory provisions requiring the creation of a specific fund are scattered throughout the Revised Code.

General statutory requirements for the creation of funds are found in Ohio Rev. Code §5705.09. This code section states:

> Each subdivision shall establish the following funds:
>
> (A) General fund;
>
> (B) Sinking fund whenever the subdivision has outstanding bonds other than serial bonds;

(C) Bond retirement fund, for the retirement of serial bonds, notes, or certificates of indebtedness;

(D) A special fund for each special levy;

(E) A special bond fund for each bond issue;

(F) A special fund for each class of revenues derived from a source other than the general property tax, which the law requires to be used for a particular purpose;

(G) A special fund for each public utility operated by a subdivision;

(H) A trust fund for any amount received by a subdivision in trust.

Based on this statute, it is unnecessary to continue to request permission from the Auditor of State to establish a new fund when the purpose of the fund will be to record and expend the proceeds of debt, to account for a new grant whose use is restricted to a particular purpose or to account for money received in trust.

When Requests are Necessary

It is necessary to continue to submit requests to the Auditor of State when the creation of the fund is not specifically authorized by statute or when the purpose of the fund is not identified in Ohio Rev. Code §5705.09 (A) - (H). Situations in which it would be appropriate to continue to submit requests include: 1) when management wishes to create a new fund in order to capture additional financial information about a specific source of revenue or a specific activity; 2) when the fund will be used to account for restricted gifts or bequests that will not be held in trust; and 3) when management wants to impose internal restrictions on the use of otherwise unrestricted resources

Management often asks to create a new fund to determine how much revenue a specific source generates or how money from a specific source is being spent. In circumstances where the desired financial information can be obtained by creating additional accounts within an existing fund, the creation of a separate fund is generally considered unnecessary. An exception to this policy is made for requests for the creation of proprietary funds.
Proprietary funds are intended to account for activities that are similar to businesses. The activity is at least partially financed by charges for services or goods. Rates are usually set by the legislative authority, and the desire is to maintain accounting records which can demonstrate the extent that charges cover the costs of providing the goods or services. This is accomplished by tracking all revenues and the related expenses of an activity within a single fund. Requests for the creation of a proprietary fund are usually granted.

Sending a request to establish a new fund is still appropriate when the fund will be used to

account for restricted gifts or bequests not held in trust. The creation of a trust fund is not necessary to account for restricted gifts or donations; this money may be accounted for in a special revenue fund or, if restricted to the acquisition of fixed assets, in a capital projects fund. A trust fund is recommended only when there is a formal trust agreement with the donor. Requests to account for restricted gifts and donations are routinely granted based on the need to demonstrate compliance with donor restrictions.

Letters frequently request permission for a new fund based on management's wish to place internal restrictions on the use of otherwise unrestricted resources. These types of requests are generally not approved. It is the policy of the Auditor of State to refuse requests when approval would result in giving readers of financial statements the false impression that the use of the resources in the fund is restricted. The General Assembly has begun authorizing the creation of funds using unrestricted resources in certain specific circumstances. For example, H.B. 426 allows subdivisions to create funds for the payment of compensated absences and for the acquisition of fixed assets. The Auditor of State does not feel it is appropriate to extend this ability into areas where the legislature has not acted.

When responding to requests to establish new funds, the Auditor of State applies two basic guidelines. Separate funds are justified 1) when they will provide management with additional relevant financial information which is not obtainable using the current fund structure; and 2) when necessary to demonstrate compliance with legal or contractual restrictions.

When the purpose of a fund created under the provisions of Ohio Rev. Code §5705.12 has been fulfilled, the unexpended balance may be transferred to the general fund or to the bond retirement fund, but only after the payment of all obligations incurred and payable from the fund. (See Ohio Rev. Code §5705.14) Management may not simply modify or alter the purpose of the fund; that, in effect, creates a new fund and would require a second approval from the Auditor of State.

To request the creation of a new fund, complete the attached form. Send the form and a copy of the resolution or ordinance of the legislative authority authorizing the fund to:

Auditor of State's Office
Local Government Services Division
88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

The request can be deemed approved if you do not receive a letter disapproving the request from the Auditor of State's local government services division within 30 days from the date of submission.

Questions concerning this bulletin should be addressed to the Local Government Services Division of the State Auditors Office at (800) 345-2519.

AUDITOR OF STATE
REQUEST FOR FUND APPROVAL

Entity: _____

Fiscal Officer: _____

Phone No.: _____

Request Date: _____

Fund Requested: _____

Purpose of Fund: _____

_____

_____

Sources of Revenues: _____

_____

Anticipated Expenditures: _____
(Types)

_____

NOTE: Please attach a copy of the resolution requesting approval to establish the fund.