Transfers and Advances: What’s Allowable and What’s Not

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AGENDA
Transfers and Advances

• Definitions
• Examples
• Implementation
• Clarifications
• Questions

What is a Transfer?

• Flows of assets without equivalent flows of assets in return and without a requirement for repayment
• A nonreciprocal (non-exchange transaction) from one fund to another
  – Useful to think of transfer as a “gift” from one fund to another.
What is a Transfer?

• A transfer is a movement of dollars from an unrestricted fund to a restricted fund.
• Or (in rare circumstances) from a restricted fund to another restricted fund with the same purpose.
• An entity may never transfer funds from a restricted fund to an unrestricted fund.
• Ohio Rev. Code 5705.14 to 5705.16.

Approval of Legislative Authority

• A transfer requires a resolution from the entity’s legislative authority before the transfer occurs. There is no provision in the Ohio Rev. Code for retroactive transfers.
• Must appear in the minutes.
• Ohio Rev. Code Section 5705.14

Why are Transfers Such an Important Issue?

• Fund accounting segregates legally restricted resources.
• Therefore, transferring cash restricted for one purpose to a fund with a different restricted purpose potentially permits spending the transfer in violation of its restricted purpose.
• Ohio Rev. Code Sections 5705.14 - .16 attempt to prevent these violations.
Some Transactions May Not Be “Transfers”

- **Intrafund appropriation “transfers”**
  - Not transfers per 5705.14 -.16; there is no cash transaction
  - Intrafund appropriation “transfers” amend spending authority for one appropriation account and increase another account by the same amount
    - Within the same fund

**“Exchange Transactions”**

- Interfund services provided and used are "exchange transactions" related to services “purchased and sold” between funds.

**“Exchange Transactions” and Interfund Services (cont.)**

- Report as disbursement in paying fund
- Report as receipt in fund providing service or asset
  - Governments should not classify as transfers; but most often “charges for services”
  - These are NOT 5705.14-.16 transfers
- Example – payments to Internal Service Funds
“Exchange Transactions” and Interfund Services (cont.)

• Presumably a fund is paying for a service that does not violate its restricted purpose
  – If a payment does violate a restriction, noncompliance would be cited and subject to a Finding for Adjustment (FFA)
  – Payments that far exceed a reasonable value of transactions are NOT payments for services but gifts
• Need to be cautious of differences between
  – Gifts (transfers) and interfund service (exchange transactions)

Unreasonable Amounts

• An entity should record any charges unreasonably exceeding these amounts as transfers, subject to 5705.14-.16
• Determining reasonable requires careful judgment

TRANSFER EXAMPLES
Allowable Transaction
Sewer Fund Debt Service

- A sewer fund debt covenant mandates a periodic transfer from the sewer operating fund to the sewer debt service fund.
- This is an appropriate interfund transaction and should be recorded as a “transfer” on the face of the financial statement.

Transfers
Lease Agreement

- County Waste Management District and County enter a lease agreement where CWMD pays county $1,000 per day for land to be used for landfill. County commissioners approve by resolution, and also a retroactive payment of $365,000 for the previous year.

Transfers
Lease Agreement (cont.)

- Not only is amount unreasonable, the lease is not in EPA-authorized plan.
- Illegal transfer (not a valid interfund appropriation)
- Finding for adjustment to be issued.
Transfers
Water Fund to General Fund

- 3-person village water division transfers $250,000 from Water Fund to city’s General fund
- The transfer is for annual support services (accounting, information technology, human resources training) rendered by village

Transfers
Water Fund to General Fund (cont.)

- Considering the services received, not a reasonable appropriation.
- Illegal Transfer
- Finding for adjustment would be issued for the unreasonable portion ($200,000)

Transfers
Water Fund to General Fund (cont.)

- Transfers were disguised as interfund transactions.
- There is an exchange; however, the amounts paid were many many times in excess of any reasonable fair value.
Transfers
General Fund to Road & Bridge

- Township made a transfer of $13,000 from the General Fund to the Road and Bridge Fund.
  - Transfer was not noted in the minutes as being approved by resolution of the Board of Trustees.
- This resulted in a finding for adjustment.

Transfers
General Fund to Road & Bridge (cont.)

- Potential impact on financial statements and audit report
  - Adjustment could lead to negative fund balances.
  - Opinion qualification if adjustment not made
  - Impact on public relations

Transfers
Gas Tax Fund to General Fund

- Township transferred $100,000 from Gas Tax Fund into General Fund.
  - Transferring cash restricted for one purpose to a fund with a different restricted purpose potentially permits spending the transfer in violation of its restricted purpose.
  - A finding for adjustment was issued.
Transfers
No Authorization

• Village transferred $20,000 from the General Fund to the Police Computer Fund without council authorization.

• A transfer must be approved by resolution of the taxing authority. Simple majority needed for transfers from general fund; 2/3 majority otherwise.

Legislative Authority Is Sufficient For Some Transfers

• Unexpended balance in a bond fund can be transferred to the sinking fund or bond retirement fund from which such bonds are payable. ORC 5705.14(A)

Legislative Authority is Sufficient for Some Transfers

• Unexpended balance in any specific permanent improvement fund (after payment of all obligations incurred in acquisition of permanent improvement) can be transferred to the sinking fund or bond retirement fund if needed for obligations—otherwise to a special fund for the acquisition of permanent improvements. ORC 5705.14(B)
Legislative Authority is Sufficient for Some Transfers

• Except as provided in (C)(2), unexpended balance in the sinking fund or bond retirement fund, after all indebtedness, interest and other obligations have been paid or retired, shall be transferred to the bond retirement fund.

• If no such fund exists, transfer can be made to any other fund with approval of the court of common pleas. ORC 5705.14(C)(1)

Legislative Authority is Sufficient for Some Transfers

• Money in a bond fund or bond retirement fund of a school district may be transferred to a specific permanent improvement fund if budget commission approves.

• ORC 5705.14(C)(2)

Legislative Authority is Sufficient for Some Transfers

• The unexpended balance in any special fund, other than an improvement fund, may be transferred to the general fund or to the sinking fund or bond retirement fund after the termination of the activity, service, or other undertaking for which such special fund existed...
Legislative Authority is Sufficient for Some Transfers (continued)

- But only after the payment of all obligations incurred and payable from such special fund.
- ORC 5705.14(D)

Legislative Authority is Sufficient for Some Transfers

- Money may be transferred from the general fund to any other fund of the subdivision. ORC 5705.14(E)
- Requires resolution passed by majority of the board.

Some Transfers Require Tax Commissioner and Court Approval

- Most other transfers of public money from one fund to another, not otherwise specifically mentioned in ORC 5705, need legislative authorization, tax commissioner approval, and approval by the court of common pleas.
- ORC 5705.15 and 5705.16
Prohibited Transfers

- ORC 5705.15 strictly prohibits the transfer of proceeds or balances of:
  - Loans and Bond Issues;
  - Special Levies for the Payment of Loans or Bond Issues;
  - Funds derived from any excise tax levied by law for a specified purpose;
  - License fees imposed by law for a specified purpose

ADVANCES

- Once a government transfers unrestricted money into a fund with a restriction, it becomes restricted money subject to Ohio Rev. Code Sections 5705.14 -.16.
- Auditor of State issued Bulletin 97-03 to provide for short term interfund loans, called “advances.”
Advances

- The Ohio Revised Code does not specifically provide for interfund loans; therefore, the AOS issued Bulletin 97-03, permitting advances through accepted accounting practices.

Advances

- Inter-fund cash advances may be a desirable method of resolving cash flow problems without the necessity of incurring additional interest expense for short-term loans and to provide the necessary "seed" for grants that are allocated on a reimbursement basis.
- The intent for cash advances is to require repayment within the current or succeeding year.

Requirements for Advances

- Any advance must be clearly labeled as such, and must be distinguished from a transfer. Transfers are intended to reallocate money permanently from one fund to another. Advances temporarily reallocate cash from one fund to another and involve and expectation of repayment.
Requirements for Advances

• There must be statutory authority to use the money in the fund advancing the cash for the same purpose for which the fund receiving the cash was established.

Requirements for Advances

• Advances must be approved by a formal resolution of the taxing authority of the subdivision which must include:
  – A specific statement that the transaction is an advance of cash, and
  – An indication of the money (fund) from which it is expected that repayment will be made.

Requirements for Advances

• If Advance is not repaid when it should, (short term) should convert advance to a transfer
• Required formal transfer procedures must be completed
• Record transfer
• Reverse entries recording the cash advance and repay advance with transfer proceeds.
Budgetary Effects

• An inter-fund cash advance does not directly affect the budgetary accounts of either the creditor or debtor funds when the advance is made or repaid. It is merely recorded in the cash journal to adjust the fund cash balances and in the ledger accounts to provide accountability.

Budgetary Effects

• If, however, advance is not repaid in the “short term”, the altered cash balances must be considered in the appropriation resolution.

EXAMPLES
**Advances**

- City council gave finance director blanket authority to amend year-end appropriations and make interfund transfers and advances.
- Council later approved these transactions. *Council cannot delegate its authority to modify appropriations or approve interfund transfers and advances.*

**Limited Use for Advances**

- Advances were **not** created to allow short term loans from a restricted fund to the general fund.
  - This is prohibited under Ohio Rev. Code Sections 5705.14 -.16.
- Advances were created to solve short term cash flow problems such as a temporary fund deficit balance.
Common Advances

• In anticipation of grant award amounts
  – OPWC
  – FEMA
  – Other; fire District anticipating a reimbursement grant to purchase a fire truck

References

• Ohio Compliance Supplement (OCS)
  – OCS Chapter 1; Section A – 5705.14-.16

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