

OHIO AUDITOR OF STATE  
**KEITH FABER**



GOVERNMENT FINANCIAL OFFICIALS ASSOCIATION

# **Fund Accounting 101**

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Local Government Services

# Principles of **F U N** d Accounting

The seal of the State Auditor of Ohio is faintly visible in the background. It features a central figure holding a scale and a sword, surrounded by the text "THE SEAL OF THE STATE AUDITOR OF OHIO".

# OBJECTIVES

- What is Fund Accounting?
- How does Fund Accounting work?
- What kinds of Funds are there?
- How do you create a new fund?
- Monthly financial information?



# 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

# OK . . . SO WHAT'S A FUND

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

# WHAT?



Think think think



Think

# FUND ACCOUNTING



- Segregates transactions related to certain city functions to aid financial management

- Demonstrates legal compliance

# GASB 54 FUND BALANCE CLASSIFICATIONS



- **NON-SPENDABLE**

Cannot be spent because not in spendable form or legally or contractually required to be intact



- **RESTRICTED**

Externally imposed constraints



- **COMMITTED**

Constraints imposed internally by formal action of the governments' highest decision-making authority





# GASB 54 FUND BALANCE CLASSIFICATIONS *(continued)*



- **ASSIGNED**

Constraints where there is government intent to be used for specific purposes but are neither restricted or committed

- **UNASSIGNED**

Residual classification for general fund. Fund balance not assigned to other funds or restricted, committed or assigned to specific purpose in general fund

# WHAT KINDS OF FUNDS ARE THERE?



Governmental Funds

Proprietary Funds



Fiduciary Funds



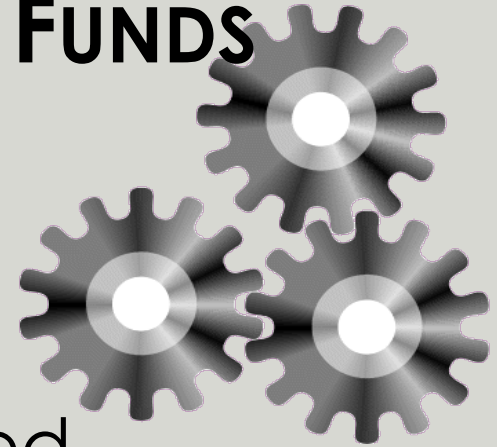
# GASB 54 – GOVERNMENTAL FUNDS

- Those funds through which most governmental functions typically are financed. Reports on the sources, uses and balances of current financial resources:
  - General Fund
  - Special Revenue Funds
  - Debt Service Funds
  - Capital Project Funds
  - Permanent Funds



# **GASB 54 – GOVERNMENTAL FUNDS**

## ***GENERAL FUND***



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

# GASB 54 – GOVERNMENTAL FUNDS

## *SPECIAL REVENUE FUNDS*



Used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditures for specific purposes other than debt service or capital projects

*Examples: SCM & R, Policy Levy*

# **GASB 54 – GOVERNMENTAL FUNDS**

## ***DEBT SERVICE FUNDS***



Used to account for and report financial resources that are restricted, committed,

or assigned to expenditures for principle and interest

# **GASB 54 – GOVERNMENTAL FUNDS**

## ***CAPITAL PROJECTS FUNDS***

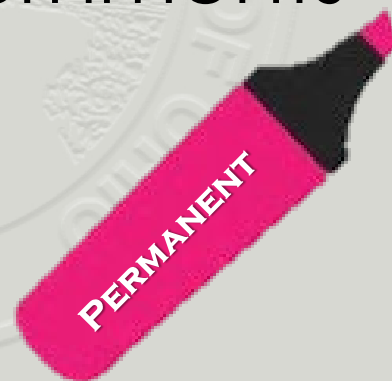
Used to account for and report financial resources that are restricted, committed or assigned to expenditures for capital outlays including the construction or acquisitions of capital facilities and other assets



# **GASB 54 – GOVERNMENT FUNDS**

## ***PERMANENT FUNDS***

Used to account for financial resources that are restricted to the extent that only earnings, and not principal, may be used for purposes that support the governments' programs





# PROPRIETARY FUNDS

- Focuses on the determination of operating income, financial position and cash flows:
  - Enterprise Funds
  - Internal Service Funds



# PROPRIETARY FUNDS

## *ENTERPRISE FUNDS*



Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services

*Examples: Sewer, Water, Electric*

# PROPRIETARY FUNDS

## *INTERNAL SERVICE FUNDS*

Accounts 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

*Examples: Self-Insurance, Retrospective Workers' Compensation*



# FIDUCIARY FUNDS

- **Fiduciary funds are used to report assets held in trust or agency capacity for others and therefore cannot be used to support government's own programs:**
  - **Pension Trust Funds**
  - **Investment Trust Funds**
  - **Private Purpose Trust Funds**
  - **Custodial Funds**

# HOW TO CREATE A FUND

- Auditor of State Technical Bulletin 99-006
- If it is not established by law, either specifically, or in general, permission to establish a new fund comes from the Auditor of State's Office

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;

# AOS PERMISSION

A cartoon illustration of a person with a surprised expression, wearing a blue shirt, with one hand raised. A yellow speech bubble next to them contains the text 'May I . . . .'.

May I . . . .

- Required under the following circumstances:
  - When management wants to capture additional financial information about a specific revenue source or activity
  - When the fund will be used to account for restricted gifts or bequests that will not be held in trust; or
  - When management wants to impose internal restrictions not otherwise required by law

# AOS APPROVAL



- When it is necessary to demonstrate compliance with legal or contractual restrictions
- Use of fund must be consistent with GASB fund definitions

**APPROVED**

# MONTHLY FINANCIAL INFORMATION

- Cash summary by Fund
- Appropriation Report
- Estimated Resources Report
- Bank Reconciliation
- Watch for:
  - Level of spending !
  - District funds !





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