

AUDITOR OF STATE BULLETIN 97-003
JANUARY 20, 1997

TO: ALL TOWNSHIP CLERKS
ALL VILLAGE CLERK/TREASURERS
ALL COUNTY AUDITORS
ALL MUNICIPAL FINANCE DIRECTORS
ALL CITY AUDITORS
ALL SCHOOL TREASURERS
ALL LIBRARY CLERKS
ALL INDEPENDENT PUBLIC ACCOUNTANTS

SUBJECT: ACCOUNTING TREATMENT FOR INTER-FUND CASH ADVANCES
This bulletin replaces MAS Bulletin No. 85-09 issued December 17, 1985.

The purpose of this bulletin is to reissue a previous bulletin pertaining to the accounting treatment for inter-fund cash advances. Such a cash advance 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 this type of cash advance is to require repayment within the current year.

Inter-fund cash advances are subject to the following requirements:

1. 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 and may be made only as authorized in Sections 5705.14 to 5705.16 of the Revised Code. Advances on the other hand, are intended to temporarily reallocate cash from one fund to another and involve an expectation of repayment;
2. In order to advance cash from one fund to another, there must be statutory authority to use the money in the fund advancing the cash (the "creditor" fund) for the same purpose for which the fund receiving the cash (the "debtor" fund) was established;
3. The reimbursement from the debtor fund to the creditor fund must not violate any restrictions on use of the money to be used to make the reimbursement; and
4. Advances must be approved by a formal resolution of the taxing authority of the subdivision. This resolution must include:
 - a. A specific statement that the transaction is an advance of cash, and
 - b. An indication of the money (fund) from which it is expected that repayment will be made.

Accounting Procedures

The following procedures (see examples on attached pages) are necessary to account for inter-fund advances:

1. **Cash Journal** - On the effective date of the resolution authorizing an advance, an entry should be made in the cash journal to reduce the cash balance of the creditor fund by the amount of the advance and to increase the cash balance of the debtor fund by the same amount.
2. **Ledger Accounts** - When the initial advance occurs, a ledger account for "Advances Out" must be established for the creditor fund. Similarly, a ledger account for "Advance In" must be established in the debtor fund. All pertinent information should be recorded on the ledger when the transaction is posted.
3. **Cash Journal** - On repayment of the advance in whole, or in part, an entry should be made in the cash journal to increase the cash balance of the creditor fund by the amount of repayment and to reduce the cash balance of the debtor fund by the same amount.
4. **Ledger Accounts** - When the advance is repaid, a ledger account for "Advances Out" will need to be established in the debtor fund to show the disbursement of the repayment. To record the receipt of the repayment in the creditor fund, a ledger account for "Advances In" will need to be established.

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 merely is recorded in the cash journal to adjust the fund cash balances and in the ledger accounts to provide accountability. If, however, such an advance is not repaid at the end of the fiscal year, the altered cash balances must be taken into consideration in the preparation of the appropriation resolution.

When a cash advance is outstanding at the beginning of a fiscal year in which repayment is expected, the total resources available for expenditure in the creditor and debtor fund are misstated, as no provisions exists for the receipt of cash in the creditor fund or for the use of the debtor fund. To adjust for this, the unencumbered cash balance of the creditor fund must be increased by the amount of repayment expected during the succeeding fiscal year to produce the "carryover balance available for appropriation." Similarly, the unencumbered cash balance in the debtor fund must be reduced by the amount of repayment expected during the succeeding fiscal year to produce "carryover balance available for appropriation." This adjustment is made on the "certificate of the total amount from all sources available for expenditures, and balances" filed with the County Budget Commission pursuant to Section 5705.36 of the Revised Code.

Conversion to Transfer

If, after an advance is made, the taxing authority determines that the transaction should, in fact, be treated as a transfer, the following procedures should be followed:

1. The necessary formal procedures for approval of the transfer should be completed including, if necessary, approval of the commissioner of tax equalization and of the court of common pleas;
2. The transfer should be formally recorded on the records of the subdivision; and
3. The entries recording the cash advance should be reversed to, in effect, repay the advance with the proceeds of the transfer.

If you have any questions, please call the Local Government Services staff at (800) 345-2519.