

Fund Accounting for Townships and Districts

Presented by:
Justin Sloan, CGFM
Assistant Chief Project Manager
Local Government Services

Course Objectives

- This course is part of an all-day session that will provide new fiscal officers an introduction to fund accounting.
- The objective is to address the following concepts:
 - Why do we use fund accounting?
 - What is fund accounting?
 - How does fund accounting work?
 - What is a fund?
 - How are funds categorized?
 - How are funds established and maintained?

The Origins of Fund Accounting

- Generally, government officials must comply with significant legal restrictions on the use of public resources.
- Must ensure and demonstrate compliance with these restrictions as well as any other legal restrictions on the use of public resources.

Fund Accounting

- Fund accounting is the activity of analyzing, recording, summarizing, reporting, and interpreting the financial transactions of governments.
- Specifically designed to help governments ensure and demonstrate legal compliance.
- Well-suited to demonstrate a government's fiscal accountability.
 - Allows governments to track revenues with purpose restrictions against the expenditures made for those purposes
 - It is easier to identify which monies are available for specific purposes
- This is accomplished through the use of funds

What is a Fund?

- A fund is defined as 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 equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.
- A fund segregates the monies of the government according to legal or purpose restrictions

How Does Fund Accounting Work?

- Assets and related inflows, taken together with liabilities and related outflows, result in an individual fund balance.
- Townships are cash-basis accounting entities, so the focus of fund accounting will be on the flow of cash resources.
- Effective cash-basis fund accounting is accomplished through the use of journals and ledgers.
 - Cash Journal
 - Receipt Ledger
 - Appropriation Ledger
- Uniform Accounting Network (UAN) software produced by the Ohio Auditor of State will prepare the journal and ledger entries.

Fund Categories

- Governmental Funds
- Proprietary Funds
- Fiduciary Funds

Governmental Funds

- General Fund
- Special Revenue Funds
- Debt Service Funds
- Capital Project Funds
- Permanent 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 and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects

Special Revenue Funds

Townships (Common Examples)

- Motor Vehicle License Tax Fund
- Gasoline Tax Fund
- Road and Bridge Fund
- Cemetery Fund
- Special Levy Funds

Debt Service Funds

- Used to account for the accumulation of resources for, and the payment of, general long-term and short-term debt principal and interest
- Should be used to report resources if legally mandated
 - Debt payable from property taxes
 - Notify the County Auditor when debt is incurred, and the County Auditor will distribute the portion of taxes or revenue collected that are to be used to pay the debt.

Capital Project Funds

- Used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets.
- Excludes those types of capital-related outflows financed by proprietary funds or for assets that will be held in trust for individuals, private organizations, or other governments.

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 to support the government's programs (used for the benefit of the government or its citizens)

Proprietary Funds

- Enterprise Funds
- Internal Service Funds

Enterprise Funds

- May be used to account for any activity for which a fee is charged to external users for goods or services

Internal Service Funds

- May be 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 or custodial capacity for others and cannot be used to support the government's own programs
- The assets associated with the activity are NOT derived from either:
 1. Solely from the township's own source revenues, or
 2. From government-mandated nonexchange transactions or voluntary nonexchange transactions, with the exception of pass-through grants, for which the government does not have administrative involvement or direct financial involvement

Fiduciary Funds

- Pension (and Other Employee Benefit) Trust
- Investment Trust
- Private Purpose Trust
- Custodial

Pension (and Other Employee Benefit) Trust

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

Investment Trust

- Accounts for the financial resources of an external investment pool that the government sponsors
 - Very Rare

Private Purpose Trust

- Used to report all trust arrangements, other than those properly reported in pension (and other employee benefit) or investment trust funds
- The assets are (a) administered through a trust in which the government itself is not a beneficiary, (b) dedicated to providing benefits to recipients in accordance with the benefit terms, and (c) legally protected from the creditors of the government

Custodial Funds

- Account for fiduciary activities that are not required to be reported in pension (and other employee benefit) trust funds, investment trust funds, or private-purpose trust funds

Establishment of Funds

- Governmental units should establish and maintain those funds required by law and sound financial administration. Only the minimum number of funds consistent with legal and operating requirements should be established, however, because unnecessary funds result in inflexibility, undue complexity, and inefficient financial administration.

Establishment of Funds

- Governmental units should establish and maintain those funds required by law and sound financial administration. Only the minimum number of funds consistent with legal and operating requirements should be established, however, because unnecessary funds result in inflexibility, undue complexity, and inefficient financial administration.

GASB Codification 1300
NCGAS 1, § 29

Establishment of Funds

- General statutory requirements for the creation of funds are found in Ohio Revised Code § 5705.09
- Townships shall establish the following funds:
 - General fund
 - Sinking fund or bond retirement fund
 - Special fund for each special levy
 - Special bond fund for each bond issue
 - 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
 - Special fund for each public utility operated by a township
 - Trust fund for any amount received by a township in trust

Establishment of Funds

- Statutory requirements for the creation of certain special funds are found in Ohio Revised Code § 5705.121
 - Cemetery Fund
- Capital Projects Funds (Ohio Revised Code § 5705.13)

Establishing a New Fund

- The establishment of certain new funds may require Auditor of State approval
- It is necessary 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 Revised Code §§ 5705.09 (A) - (H)
- Auditor of State approval for a new fund is also necessary 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

Establishing a New Fund

- Auditor of State approval is **not** necessary when the creation of the desired fund is already authorized or required by statute (either specifically by name, or in general)
- Auditor of State approval is **not** necessary 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

Requesting Auditor of State Approval

- Refer to Auditor of State Bulletin 99-006
- The form and instructions for requesting Auditor of State approval for a new fund can be found in the Ohio Township Handbook
- The information is also available at <https://www.ohioauditor.gov/resources/AOSNotifications.html>

Justin W. Sloan, CGFM
Assistant Chief Project Manager
Local Government Services | Southeast
(614) 466-4717
JWSloan@ohioauditor.gov

2024 Local Government Officials Conference

Fund Accounting

Appendix



Ohio Revised Code

Section 5705.09 Establishment of funds.

Effective: October 1, 1953

Legislation: House Bill 1 - 100th General Assembly

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.
-



Ohio Revised Code

Section 5705.12 Approval to establish special funds.

Effective: July 22, 1998

Legislation: House Bill 426 - 122nd General Assembly

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.



Ohio Revised Code

Section 5705.121 Other special funds.

Effective: March 22, 2019

Legislation: House Bill 500 - 132nd General Assembly

A municipal corporation may establish in the manner provided by law a sanitary police pension fund, an urban redevelopment tax increment equivalent fund, or a cemetery fund.

A township may establish by law a cemetery fund.

A subdivision that levies a tax for the purpose described in division (ZZ) or (AAA) of section 5705.19 of the Revised Code shall establish a general capital and infrastructure fund to which the proceeds from that levy shall be credited. By resolution or ordinance, the taxing authority may establish accounts within that fund for any of the several particular purposes for which such money may lawfully be spent, may eliminate such accounts when no longer necessary or desirable, and may transfer money between such accounts. Money in the fund may not be used to pay the compensation of officers or employees of the subdivision.



Ohio Revised Code

Section 5705.13 Reserve balance accounts - special revenue fund - capital projects fund.

Effective: March 27, 2020

Legislation: House Bill 197 - 133rd General Assembly

(A) A taxing authority of a subdivision, by resolution or ordinance, may establish reserve balance accounts to accumulate currently available resources for the following purposes:

- (1) To stabilize subdivision budgets against cyclical changes in revenues and expenditures;
- (2) Except as otherwise provided by this section, to provide for the payment of claims and deductibles under an individual or joint self-insurance program for the subdivision, if the subdivision is permitted by law to establish such a program;
- (3) To provide for the payment of claims, assessments, and deductibles under a self-insurance program, individual retrospective ratings plan, group rating plan, group retrospective rating plan, medical only program, deductible plan, or large deductible plan for workers' compensation.

The ordinance or resolution establishing a reserve balance account shall state the purpose for which the account is established, the fund in which the account is to be established, and the total amount of money to be reserved in the account.

Not more than one reserve balance account may be established for each of the purposes permitted under divisions (A)(2) and (3) of this section. Money to the credit of a reserve balance account may be expended only for the purpose for which the account was established.

A reserve balance account established for the purpose described in division (A)(1) of this section may be established in the general fund or in one or more special funds for operating purposes of the subdivision. The amount of money to be reserved in such an account in any fiscal year shall not exceed five per cent of the revenue credited in the preceding fiscal year to the fund in which the account is established, or, in the case of a reserve balance account of a county or of a township, the greater of that amount or one-sixth of the expenditures during the preceding fiscal year from the fund



in which the account is established. Subject to division (F) of section 5705.29 of the Revised Code, any reserve balance in an account established under division (A)(1) of this section shall not be considered part of the unencumbered balance or revenue of the subdivision under division (A) of section 5705.35 or division (A)(1) of section 5705.36 of the Revised Code.

At any time, a taxing authority of a subdivision, by resolution or ordinance, may reduce or eliminate the reserve balance in a reserve balance account established for the purpose described in division (A)(1) of this section.

A reserve balance account established for the purpose described in division (A)(2) or (3) of this section shall be established in the general fund of the subdivision or by the establishment of a separate internal service fund established to account for the operation of an individual or joint self-insurance program described in division (A)(2) of this section or a workers' compensation program or plan described in division (A)(3) of this section, and shall be based on sound actuarial principles. The total amount of money in a reserve balance account for self-insurance may be expressed in dollars or as the amount determined to represent an adequate reserve according to sound actuarial principles.

A taxing authority of a subdivision, by resolution or ordinance, may rescind a reserve balance account established under this division. If a reserve balance account is rescinded, money that has accumulated in the account shall be transferred to the fund or funds from which the money originally was transferred.

(B) A taxing authority of a subdivision, by resolution or ordinance, may establish a special revenue fund for the purpose of accumulating resources for the payment of accumulated sick leave and vacation leave, and for payments in lieu of taking compensatory time off, upon the termination of employment or the retirement of officers and employees of the subdivision. The special revenue fund may also accumulate resources for payment of salaries during any fiscal year when the number of pay periods exceeds the usual and customary number of pay periods. Notwithstanding sections 5705.14, 5705.15, and 5705.16 of the Revised Code, the taxing authority, by resolution or ordinance, may transfer money to the special revenue fund from any other fund of the subdivision from which such payments may lawfully be made. The taxing authority, by resolution or ordinance, may rescind a special revenue fund established under this division. If a special revenue fund is rescinded, money



that has accumulated in the fund shall be transferred to the fund or funds from which the money originally was transferred.

(C) A taxing authority of a subdivision, by resolution or ordinance, may establish a capital projects fund for the purpose of accumulating resources for the acquisition, construction, or improvement of fixed assets of the subdivision. For the purposes of this section, "fixed assets" includes motor vehicles. More than one capital projects fund may be established and may exist at any time. The ordinance or resolution shall identify the source of the money to be used to acquire, construct, or improve the fixed assets identified in the resolution or ordinance, the amount of money to be accumulated for that purpose, the period of time over which that amount is to be accumulated, and the fixed assets that the taxing authority intends to acquire, construct, or improve with the money to be accumulated in the fund.

A taxing authority of a subdivision shall not accumulate money in a capital projects fund for more than ten years after the resolution or ordinance establishing the fund is adopted. If the subdivision has not entered into a contract for the acquisition, construction, or improvement of fixed assets for which money was accumulated in such a fund before the end of that ten-year period, the fiscal officer of the subdivision shall transfer all money in the fund to the fund or funds from which that money originally was transferred or the fund that originally was intended to receive the money.

A taxing authority of a subdivision, by resolution or ordinance, may rescind a capital projects fund. If a capital projects fund is rescinded, money that has accumulated in the fund shall be transferred to the fund or funds from which the money originally was transferred.

Notwithstanding sections 5705.14, 5705.15, and 5705.16 of the Revised Code, the taxing authority of a subdivision, by resolution or ordinance, may transfer money to the capital projects fund from any other fund of the subdivision that may lawfully be used for the purpose of acquiring, constructing, or improving the fixed assets identified in the resolution or ordinance.

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

Do not classify funds holding restricted gifts as trust funds if the beneficiary is the government. If a trust agreement designates other parties as beneficiaries, then the fund **should** be classified as a trust fund. GASB 1300.108)

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:

[http://www.ohioauditor.gov/
resources/AOSNotifications.html](http://www.ohioauditor.gov/resources/AOSNotifications.html)

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~~.

[http://www.ohioauditor.gov/
contact.html](http://www.ohioauditor.gov/contact.html)

**AUDITOR OF STATE
REQUEST FOR FUND APPROVAL**

Entity: _____

Fiscal Officer: _____

Phone No.: _____

Request Date: _____

Fund Requested: _____

Purpose of Fund: _____

Sources of Revenue: _____

Anticipated Expenditures (Types): _____

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