Prerequisite Accounting
Governmental Fund
Accounting 103

UNIFORM ACCOUNTING NETWORK

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Contents

CHAPTER 1: CHANGES TO THE BUDGET

You will have to address changes to the two separate components of the budget; resources available certified on the current certificate (Official or Amended), or the board adopted appropriations.

Although you also have to monitor cash for projects and purchases, remember that the availability of cash and the management of the two budget components are different issues. In this chapter, we will address budget, not cash.

Changes to the budget sometimes affect one or both components. It is important to understand the difference between the two components and how changes should be properly managed. It is easy to be confused if you do not understand the separate components and their purpose. Let's review what we know from Fund Accounting 102 about the two budget components:

Amended Certificate: The certified resources available establishing the maximum the board appropriate.

Appropriations: Adopted by the governing board in the form of legislation at open public meetings to formally establish the spending plan.

BUDGET COMPONENT REFRESHER:

Resources available for appropriation

1. The Official Certificate of Estimated Resources is issued by the county auditor/budget commission after filing the annual tax budget. This document limits the new year appropriations (temporary or permanent) until it is replaced by the first amended certificate.
2. When prior year financial records are reconciled and closed, the year end fund balances, adjustments, and estimated annual revenue are certified to the county auditor/budget commission on the *Certificate of the Total Amount From All Sources Available For Expenditures, and Balances*. It is critical that the submitted figures are accurate. The UAN software contains correct fund balances and adjustments at the close of the year. This document should be submitted as soon as the figures are available, **but not before reconciliation and closing of the prior year financial records**.
3. The county auditor/budget commission issues the first Amended Official Certificate of Estimated Resources, commonly called the amended certificate. This document replaces the official certificate and authorizes the total amount by fund the board may appropriate. ***(Township trustees and fiscal officers compensation is set by the total resources available certified on the certificate in effect when wages are earned).***

4. Upon receipt of the amended certificate, the fiscal officer verifies that the revenue budget figures in UAN are equal to the revenue certified in the Taxes and Other Sources columns on the amended certificate, and makes any required adjustments to revenue budgets if the county auditor/budget commission certified a different amount.

Board adopted appropriations

1. The board adopts appropriation legislation. Appropriations must be less than or equal to the resources available, by fund, shown on the certificate in place at the time of adoption. **The level of appropriation detail on the adopted legislation determines the legal level of control for reallocations for the rest of the year**. The legal level of control is explained later in this chapter. Appropriations are then allocated to appropriation accounts and entered as appropriation budgets.

These steps are the beginning of the management of the separate components of the operating budget each year, but are not referred to as "the budget". They are commonly called the amended certificate and appropriations – different components with different names. All changes during the year must be managed within the proper components.

BUDGET CHANGE BASICS

CHANGES TO RESOURCES AVAILABLE

When you need to change the certification of resources available, you request an Amended Official Certificate of Estimated Resources (aka amended certificate) from the county auditor.

The need to request an amended certificate may be because you received money that was not anticipated at the beginning of the year and is not currently certified. Or you may discover a loss of revenue currently certified on your resources available that will not be received, thus requiring a reduction of certification of resources available. You must monitor the revenue budgets, understand what is currently certified, and determine when changes should be requested.

CHANGES TO APPROPRIATIONS

When changes to the board adopted appropriations are required they would either be:

- **Supplemental:** An increase or decrease in the current appropriations. Always requires board-adopted legislation.

- **Reallocation:** The movement of current appropriations from one appropriation account to another within a fund. Reallocation does not change the total fund appropriations. Requires board adopted legislation when outside the fiscal officer's legal level of control. *The legal level of control will be covered in detail later in this course.*

COMPARISON OF RESOURCES AVAILABLE TO APPROPRIATIONS

The fiscal officer and governing board should always be aware of remaining resources available for appropriation in each fund. If 100% of the resources available were not appropriated at the beginning of the year the board can adopt supplemental appropriation legislation throughout the year, but they must know the amount of remaining resources available.

To find the remaining resources available you must compare the separate components of the operating budget. I like to think of this as an "apples to oranges" comparison. You are comparing your "apples," certified resources available, to "oranges," the currently adopted appropriations.

The UAN Software produces many reports useful in monitoring the components of the budget. One of the most useful reports is a Budgetary Report: Comparison of Budget and Appropriated. This report pulls the two components of the budget into one report for comparison purposes.

The sample below is an excerpt of the UAN Comparison of Budget and Appropriated report:

Fund Name	Total Estimated Resources	Final Appropriation	Variance
General	$295,125.69	$275,000.00	$20,125.69
Gasoline Tax	$326,617.47	$300,000.00	$26,617.47
Road and Bridge	$100,258.11	$100,258.11	$0.00
Cemetery	$125,313.57	$120,000.00	$5,313.57
Fire & EMS Levy	$295,323.22	$290,000.00	$5,323.22
Totals	**$1,142,638.06**	**$1,085,258.11**	**$57,379.95**

The **Total Estimated Resources** column represents the amount the board has the authority to appropriate by fund. This column matches the current amended certificate's total resources available.

The **Final Appropriation** column represents the amount the board has already appropriated by adopted legislation.

The last column, labeled **Variance**, shows the difference between the two; the amount of the resources still available for appropriation by fund.

If the variance of a fund is $0.00, as in the Road & Bridge Fund in the above chart, then there are no more resources available for the board to appropriate.

The other funds listed in the chart have available resources that the board can appropriate by adopting legislation. Once adopted, the fiscal officer would enter the new appropriations as supplemental appropriation budgets. This would increase the Final Appropriation column and reduce the Variance column on this budgetary report.

NEW MONEY

When you receive money that is not already certified on your current amended certificate and the amount is significant or your board plans to spend the money and does not already have sufficient appropriations to do so, you must request an amended certificate from your county auditor/budget commission.

This uncertified money can be referred to as "new money". Remember that the amended certificate certifies, by fund, the resources available that your board **may** appropriate. Therefore, all substantial new money should be certified on a new amended certificate in order to reflect the most accurate estimated resources available for the board to appropriate. Townships should also be aware that the amended certificate governs the compensation rate of the trustees and fiscal officer.

For our class sample, we have received a donation that is not already certified on the amended certificate because we did not know someone was going to donate money.

Procedures for requesting an amended certificate differ county to county. Contact your county auditor to ask how they want requests for amended certificates submitted. Find out when the amended certificates are approved and returned.

The fiscal officer must take the steps below for the money to be posted to the system and the revenue to be certified on a new amended certificate.

1. Immediately deposit the check in the bank.
2. If a revenue account is not already active in the fund that will receive the donation, add a new revenue account. Remember the Uniform Chart of Accounts contains many revenue codes. Review the chart of accounts to select the proper code and add it to the fund. Contact Local Government Services if you need assistance with account selection.
3. Post the receipt to the revenue account. UAN posts the receipt to the cash journal, fund and revenue ledgers. These steps have no effect on the budget component; they have only affected the cash balance.

4. **Request a new amended certificate** from the county auditor for the amount of the donation to be added to your resources available.
5. **Enter supplemental revenue budget** in UAN to increase the resources available in the software to match the amended certificate. This step is often forgotten.
6. After receiving the new amended certificate, the board **can** adopt supplemental appropriations. Just because you request a new amended certificate does not always mean the board needs to appropriate the additional amount. Sometimes you certify new revenue without the need for additional appropriations.

If the new money is insignificant, will have no effect on the compensation rate of the trustees or fiscal officer, and does not **need** to be appropriated, then it is not essential to request an amended certificate upon receipt of the money. If you request an amended certificate for another purpose later in the year, you can update all other funds and revenue budgets at that time to bring your certified resources available up to date.

An example of an insignificant amount could be receiving more than anticipated in a revenue account such as our Licenses & Permits example in Fund Accounting 102. A review of the revenue ledger below shows a slight windfall of $160.00 over the estimated revenue of $1,000 for this account. Although you have received $160 more than the original estimate by August, this is consumer-driven revenue and you may not receive additional permit income this year. It would not be wise to estimate any more revenue to this account. You would not request an amended certificate every time I collect another zoning permit.

In addition, before I increased the amended certificate for the general fund I would have to review all other general fund revenue to see if they are falling short. Just because one account has received more does not indicate the fund overall is receiving more than anticipated. We will explore this further before the end of the chapter.

If you have sufficient appropriations for operations in the fund, you would. Or increase the estimated revenue for this fund and revenue account when you request an amended certificate for a more significant purpose.

Revenue Ledger

Fund: General Fund

Revenue Account Name: Licenses and Permit

Revenue Account Number: 1000-301-0000

						Revenue Budget		
			Receipt	(4)		(1)	(2)	(3)
Date	Source Name	Purpose	Number	Revenue		Debit (+)	Credit (-)	Balance
1/01	Budget	Estimated Revenue				1,000.00		1,000.00
1/05	Zoning Inspector	Zoning Permits	1	85.00				915.00
2/23	Zoning Inspector	Zoning Permits	17	155.00				760.00
2/29	Zoning Inspector	Zoning Permits	23	150.00				610.00
3/17	Zoning Inspector	Zoning Permits	39	70.00				540.00
4/22	Zoning Inspector	Zoning Permits	48	195.00				345.00
6/17	Zoning Inspector	Zoning Permits	62	155.00				190.00
7/22	Zoning Inspector	Zoning Permits	79	175.00				15.00
8/02	Zoning Inspector	Zoning Permits	88	175.00				-160.00

An example of a significant difference in estimated revenue is shown on the revenue ledger below. If several foreclosed homes were sold resulting in back taxes being paid in full with our second half tax distribution, it could look like the revenue ledger below.

Revenue Ledger

Fund: General Fund
Revenue Account Name: General Property Tax Real Estate
Revenue Account Number: 1000-101-0000

Date	Source Name	Purpose	Receipt Number	Amount Received		Revenue Budget		
						Debit (+)	Credit (-)	Balance
1/01	Budget	Estimated Revenue				118,000.00		118,000.00
2/25	County Auditor	1st half tax Settlement	7-XXXX	59,000.00				59,000.00
8/25	County Auditor	2nd half tax settlement	72-XXXX	72,989.42				-13,989.42

We had originally estimated $118,000.00, but actually received a total of $131,989.42 with the second half tax distribution, giving us a windfall of $13,989.42. The figure appears as a negative amount because it has exceeded the original budget. This represents a substantial increase in the currently certified revenue. The board would probably want to make plans with this substantial amount of money. Remember if you have several funds that receive real estate tax, they would also be impacted by this extra revenue; we are only showing the general fund account to simplify the example.

When you see a large windfall you should always make sure the receipts have been posted to the proper fund and revenue code. An incorrectly posted receipt would show a false windfall.

In this case, the receipt is posted accurately to the general fund and we should request an amended certificate to have the $13,989.42 certified as additional resources available. We would still review the other revenue accounts in the general fund to make sure there is no large shortfall we should consider. When the amended certificate is received, we must add the supplemental revenue budget and it will appear on the revenue ledger as you see below:

Revenue Ledger

Fund: General Fund
Revenue Account Name: General Property Tax Real Estate
Revenue Account Number: 1000-101-0000

Date	Source Name	Purpose	Receipt Number	Amount Received		Revenue Budget		
						Debit (+)	Credit (-)	Balance
1/01	Budget	Estimated Revenue				118,000.00		118,000.00
2/25	County Auditor	1st half tax Settlement	7-XXXX	59,000.00				59,000.00
8/25	County Auditor	2nd half tax settlement	72-XXXX	72,989.42				-13,989.42
9/01	Budget	Amended Certificate				13,989.42		0.00

Upon receipt of the amended certificate, the governing board **may** decide to adopt supplemental appropriation legislation if the additional authorization is needed for current year operations. Remember, appropriations are a separate component of the operating budget – the board is not required to appropriate 100% of the resources available.

CHANGES IN RESOURCES AVAILABLE MAY IMPACT ON THE SALARY OF TOWNSHIP ELECTED OFFICIALS

The salary of township elected officials (unlike village, library and special districts) is based on the certified resources available on the current amended certificate. This means that sometimes a new amended certificate may mean the elected officials receive a higher rate of pay. Therefore, township fiscal officers should always compare the Ohio Revised Code township pay scale to their new amended certificate.

Village, library and special districts pay scales are not affected by the amended certificate changes. Their pay rates are set by local legislation, not by Ohio Revised Code like townships.

LESS MONEY - CHANGES TO THE RESOURCES AVAILABLE

There are also circumstances that require a reduction in certified resources available. For example, when a source of revenue was included in estimated revenue on the amended certificate, but the money will not actually be received, the resources available are overstated. In this case, you should request an amended certificate reducing the resources available.

> Township fiscal officers must be mindful of how a reduced amended certificate affects the pay scale of the elected officials. The fiscal officer must keep their trustees informed if a loss of revenue moves them to a lower pay scale.

Another problem that may arise when attempting to reduce the resources available is a lack of sufficient variance. If your board appropriated the resources **<u>that will not be received</u>**, they must adopt legislation reducing appropriations **before** you can request the reduced amended certificate. In such a case, the appropriation component of the budget has to be reduced before the resources available component can be reduced. **(Watch this portion of the video. Pause the video then read through the sample below. The book uses a fund with zero variance to illustrate the process.)**

How can you tell if the board needs to reduce appropriations first? Once again, review the excerpt of our Budgetary Report: Comparison of Budget and Appropriated. The **variance** column shows how much we can reduce our revenue budgets without having to reduce the appropriations.

The Road & Bridge fund's estimated revenue contained in the Total Estimated Resources column have been overestimated by $5,000.00, we will not receive this amount. We need to request a reduced amended certificate, but the board has appropriated 100% of the resources available; we have no variance. Therefore, the full resources available have been locked in place. Requesting a reduced amended certificate would create a compliance violation because we will have adopted appropriations in excess of our new amended certificate and that is not allowed by law.

Fund Name	Total Estimated Resources	Final Appropriation	Variance
Road and Bridge	$100,258.11	$100,258.11	**$0.00**

The appropriation component of the budget must be reduced **before** submitting a request for a reduced amended certificate. At the next board meeting, the fiscal officer advises the governing board about the loss of revenue certified on the amended certificate. The board adopts legislation reducing appropriations to the Road & Bridge fund by $5,000.00. The fiscal officer enters the reduced appropriation budgets and this reduces the total appropriations below the current resources available (maximum amount), creating a variance.

Fund Name	Total Estimated Resources	Final Appropriation	Variance
Road and Bridge	$100,258.11	$95,258.11	**$5,000.00**

The fiscal officer can now request a reduced amended certificate by the $5,000.00. When the amended certificate is received the fiscal officer enters the reduced revenue budget and the variance is reduced to zero.

Fund Name	Total Estimated Resources	Final Appropriation	Variance
Road and Bridge	$95,258.11	$95,258.11	**$0.00**

We will review the excerpt of the Comparison of Budget and Appropriated report. It should make more sense to you now. When you have to reduce your amended certificate due to loss of revenue this report will show you if you have sufficient variance in the affected funds.

The chart below shows the amounts before the changes to the Road & Bridge fund above, in this example, we will review requesting a reduced amended certificate in funds that have a sufficient variance. We will use the general fund as our example.

Fund Name	Total Estimated Resources	Final Appropriation	Variance
General	$295,125.69	$275,000.00	$20,125.69
Gasoline Tax	$326,617.47	$300,000.00	$26,617.47
Road and Bridge	$100,258.11	$100,258.11	$0.00
Cemetery	$125,313.57	$120,000.00	$5,313.57
Fire & EMS Levy	$295,323.22	$290,000.00	$5,323.22
Totals	**$1,142,638.06**	**$1,085,258.11**	**$57,379.95**

We just found out that we will not receive $5,000.00 of certified revenue in the general fund. I need to request a reduced amended certificate; I verify there is a sufficient variance. I could reduce the revenue estimates up to $20,125.69 before the board would have to reduce appropriations.

I request a reduced amended certificate from the county auditor by the $5,000.00 the general fund will not receive. I enter a negative supplemental revenue budget to bring my revenue ledger up to date. That change would look like the below excerpt of a new comparison of budget and appropriated report. It shows a reduced resources available and a reduced variance. Appropriations have not been changed because this component of the budget did not require change; they were already below the reduced resources available.

Fund Name	Total Estimated Resources	Final Appropriation	Variance
General	**$290,125.69**	$275,000.00	**$15,125.69**
Gasoline Tax	$326,617.47	$300,000.00	$26,617.47
Road and Bridge	$100,258.11	$100,258.11	$0.00
Cemetery	$125,313.57	$120,000.00	$5,313.57
Fire & EMS Levy	$295,323.22	$290,000.00	$5,323.22
Totals	**$1,137,638.06**	**$1,085,258.11**	**$52,379.95**

SHORTFALL SAMPLE

This example is not in the video. Pause the video while you read through this section.

We will review another example of a shortfall of revenue that affects the fund operations. We have a cemetery fund that operates only on money received from grave sales and open/close fees. This is a good example of a fund whose revenue the fiscal officer will need to watch closely.

When estimating revenue for this cemetery fund each year, the number of graves that will be sold and open/close fees that will be charged must be estimated. In prior years, as many as 40 graves were sold, while other years may have seen as few as 10 sales. The number of open/close fees received per year may also vary widely. The fiscal officer must review actual revenue received for both items for the past several years and determine a good estimate, taking into consideration any particular reasons some years may have been significantly different from the others.

The cemetery estimated revenue is certified on the amended certificate and **the board adopts appropriations based on those revenue estimates**. Our example current year revenue estimate by revenue account is:

Graves Sold	20,000.00
Fees	5,250.00
Total Estimated revenue	**25,250.00**

Our amended certificate below takes the unencumbered cash balance at the beginning of the year, adds the estimated revenue in the Other Sources column (remember, there is no tax revenue in our sample) and the total Resources Available are $50,503.41

Unencumbered Cash Balance 12/31	Taxes	Other Sources	Resources Available
25,253.41	0.00	25,250.00	50,503.41

To take this to the next step, assume that the board has appropriated 100% of the resources available, leaving zero variance as you see on the chart below:

Fund Name	Total Estimated Resources	Final Appropriation	Variance
Cemetery	50,503.41	50,503.41	0.00

It will be **very important** for the fiscal officer to monitor the revenue budgets and cash flow of this fund and keep the board advised each month if cash is running low and action needs to be taken. The cash flow from sporadic revenue is going to impact the ability to spend. When certifying encumbrances (issuing purchase orders), the fiscal officer must keep a close eye on the cash flow to determine if the cash will actually be available.

If the estimated revenue is not received before year end, the revenue estimates should be reduced on the amended certificate. However, before a reduced amended certificate can be requested, the board must adopt legislation reducing the appropriation component of the budget.

The review below what a sample UAN Revenue Status report shows as of December 1st.

	Revenue Budget	Revenue Received	Budget Balance
Graves Sold	20,000.00	14,000.00	6,000.00
Open/Close Fees	5,250.00	7,500.00	(2,250.00)
Total	**25,250.00**	**21,500.00**	**3,750.00**

Although one source of revenue in the fund, grave sales, did not meet expectations, the other source of revenue, fees, has exceeded expectations. Before year end, the county auditor must be notified that the "Other Sources" revenue for the cemetery fund should be reduced by the total shortage of $3,750.00.

If your governing board only meets at the beginning of December, that meeting will be their last opportunity to adopt legislation reducing appropriations, which will then allow you to request a reduced amended certificate before year end.

In this example, the board meets and adopts legislation reducing appropriations to the Cemetery fund by $3,750.00. Now the fiscal officer can request a reduced amended certificate and adjust the revenue budgets to better reflect what was received, for an overall reduction of $3,750.00 as seen below:

	Current Revenue Budget	Current Budget Balance	Supplemental Revenue Budget	Budget Balance
Graves Sold	20,000.00	6,000.00	-6,000.00	0.00
Open/Close Fees	5,250.00	(2,250.00)	2,250.00	0.00
Total	**25,250.00**	**3,750.00**	**-3,750.00**	**0.00**

In conclusion, the questions to answer before requesting a reduced amended certificate are:

- Is there enough variance in the fund to reduce revenue budgets without the board first reducing appropriations?
    - If not, the board will have to adopt legislation reducing appropriations before requesting a reduced amended certificate and entering reduced revenue budgets.
    - If so, the fiscal officer can request a reduced amended certificate and enter reduce revenue budgets.

- Do other revenue budget estimates in the fund need to be adjusted (increased or decreased) at this time?
    - Compare all the revenue budgets to the actual receipts to see if other revenue estimates are accurate, overstated, or understated. Request the amended certificate for **overall** changes that are required in order to have the most accurate estimated resources available for appropriation.

AMENDED CERTIFICATE IN PLACE AT YEAR END

The video begins again at this point.

The amended certificate in place when you close the year is **not** required to balance to the penny with the exact receipts but it should not contain grossly over or understated certified revenue. As each month passes you should be reviewing the Revenue Budget balance of each revenue account and consider the revenue account and fund's overall revenue status. This especially important for townships because of the connection to the elected official's pay scale but also import to all entities for their annual financial reporting and audit.

MID-NOVEMBER GENERAL FUND REVENUE STATUS				
Account Name **(1)**	Final Budget **(2)**	Revenue **(3)**	Budget Balance **(4)**	YTD % Received **(5)**
Gen Prop Tax - Real Estate	$118,000.00	$131,989.42	-$13,989.42	111.855%
Licenses and Permits	$1,000.00	$1,375.00	-$375.00	137.500%
Cable Franchise Fees	$24,000.00	$21,243.55	$2,756.45	88.515%
Local Government Dist.	$84,500.00	$77,628.25	$6,871.75	91.868%
Liquor Permit Fees	$1,200.00	$1,200.00	$0.00	100.000%
Cigarette License Fees	$55.00	$55.67	-$0.67	101.218%
Property Tax Allocation	$300.00	$342.52	-$42.52	114.173%
Interest	$6,000.00	$5,422.00	$578.00	90.367%
Rentals and Leases	$200.00	$125.00	$75.00	62.500%
Other-Misc. Operating	$0.00	$65.72	-$65.72	0.000%
General Fund Total:	**$235,255.00**	**$239,447.13**	**-$4,192.13**	**101.782%**

Above is sample UAN Revenue Status report for the general fund as of mid-November. At this point in time, I have not received all of my November or any of the December revenue yet, but I want to be able to discuss with the governing board the status of our revenue estimates.

We will review each revenue account and the fund's overall status. The report's columns are described below:

Column 1: Individual revenue account descriptions.
Column 2: The account's final revenue budget (revenue budgets by fund are equal to the taxes & other sources columns on the amended certificate).
Column 3: The actual revenue received – this is from posted receipts.
Column 4: The budget balance, indicating the difference between the revenue budget and actual receipts.
Column 5: The year to date percent received.

You can see how valuable this report will be in evaluating whether your actual receipts are holding up to the estimate for each account and the total fund.

Now let's evaluate the content:

- The Budget balance Column shows we have received more than anticipated in some accounts and have yet to receive the full amount in others.

- Negatives indicate more than estimated, positive is the amount I have yet to receive.

- The % YTD shows the individual account's % of the revenue budget received

- I would have to clearly understand each account. Is it consumer-driven revenue like Licenses and Permits and the Rentals and Leases? Is it received annually like the Liquor Permits and Cigarette License Fees? Received Monthly like the Local Government Distribution and Interest. You have to understand what each account represents in order to understand if your estimates are on track. If you want to know what receipts were posted to an account, you would look at the Revenue Ledger.

- Note how the individual account % Received and the total % Received in the fund shows me the account revenue status compared to the overall fund revenue status. I need to evaluate whether the accounts that are short will receive all or enough of the estimated revenue to offset the accounts that have received more, to determine if there is a reason to request an amended certificate before year end.

- Notice that at this point my general fund receipt total is only 1.782% over the estimated revenue. Not so much that I would consider a change at this point. I'm sure I will receive one more Local Government distribution and November & December interest before year end but I cannot really be sure I will receive anything else.

Carefully evaluate each fund by account and fund total. Townships make sure your salaries have not been inflated by grossly overestimated revenue!

Keep in mind your Annual Financial Reports will contain exact receipt figures compared to the estimates – that is the purpose of the annual financial report. The purpose of the amended certificate is **not** to document exact revenue; it is the certification of **estimated** resources for the purpose of appropriation. You need to make sure your fund's total revenue estimates are not grossly over or understated. Ideally each fund's total "taxes and other sources" should be equal to or slightly under the total receipts. It is far better to end the year with slightly under certified revenue, than overestimated revenues that were not received.

So as you approach year end and are evaluating whether the amended certificate should be adjusted one last time you need to know two more details:

1) When is the last date your County Auditor can certify a new amended certificate? Will they have a special "year end" meeting or do you have to request this earlier in December? Contact your county auditor to find out the last date you can request an amended certificate.
2) And – **ONLY** if you have to reduce your amended certificate – when is the last meeting of your governing board? If they have to reduce appropriations so you have sufficient variance to reduce your amended certificate you need a meeting of the board for legislation to be adopted **reducing** appropriations!

Not in the video:

To illustrate why your last amended certificate often cannot match your total receipts we have created a sample scenario.

A sample budget commission meets at 1 pm on December 30th to give local entities the last opportunity to request an amended certificate (your county may not have a year end opportunity). You request an amended certificate to reflect the exact revenue received as of 1 pm on the 30th. In this scenario there was no need to reduce any previously certified resources – only increases were required. You receive an amended certificate dated December 30th and you return to the office to find:

- The Cemetery Sexton sold a grave and deposited a check; so you post a receipt to the cemetery fund dated December 30.
- Water and sewer customers paid their bills as usual and at the close of business on the 30th **and** the 31st you post receipts to the water and sewer funds.
- On January 3rd you receive your bank statements showing the interest earned on the primary checking and investments as of December 31 – all the funds that received interest are affected.

The budget commission will not meet again this year; therefore, you cannot certify these receipts as "new money" on an amended certificate. **<u>This is not a problem!</u>**

All of the above examples are good reasons why the last amended certificate is unlikely to reflect the exact annual revenue received. Most county budget commissions do not have an extra meeting at year end; they have their regular monthly meeting earlier in the month. Notice that all of the above examples have **insignificantly** changed the December 30 amended certificate. Make your best effort to have the most accurate estimated resources before year end, but it is not necessary that 100% of receipts are certified as resources available.

Your last amended certificate of the year should reflect equal to or slightly under the total actual received by fund. It will be up to you to know when the last meeting of your budget commission will take place so you can take advantage of the last opportunity to get the closest estimate possible.

CHANGES TO APPROPRIATIONS

In Fund Accounting 102 you learned that appropriations are the second component of the current year operating budget and:

- **Temporary Appropriations**: Legislation generally adopted prior to year end to take effect January 1st, limited by the Official Certificate of Estimated Resources issued from the tax budget*, and generally the operating expenses required for the first quarter of the year. Temporary appropriations expire, by law, on March 31 or when permanent appropriations are adopted, whichever occurs first. Temporary appropriations are allocated to appropriation accounts as appropriation budgets. Your temporary appropriations should allow you to operate until you receive your first amended certificate and the board adopts permanent appropriations. Find out from your county auditor how quickly you can obtain the first amended certificate. **Entities in counties that do not file a tax budget must find out from their county auditor the procedures for requesting an Official Certificate if one is required*.

- **Permanent Appropriations**: Legislation adopted after the first amended certificate is received, limited by the resources available certified on the amended certificate. The board may appropriate up to 100% of the resources available. Permanent appropriations apply to the full year and completely replace temporary appropriations, **never** reduce the permanent appropriations by the temporaries. Permanent appropriations are allocated to appropriation accounts as appropriation budgets. They must be sufficient to cover any amounts allocated to appropriation accounts from the temporary appropriations.

Once appropriation legislation has been adopted by the governing board and allocated to the appropriation accounts as appropriation budgets, there are two ways to change the appropriation component of the budget.

1. **Supplemental Appropriations:** When certified resources are available, the governing board may adopt legislation increasing current appropriations. When appropriations to a fund must be reduced due to loss or revenue or audit adjustments, the board may adopt legislation reducing appropriations. Supplemental appropriations always change the total appropriations of a fund. Always review the Comparison of Budget and Appropriated to confirm the amount remaining available for the governing board to increase appropriations or the amount the governing board may be required to reduce appropriations before requesting a reduced amended certificate. **Supplemental appropriations always require board adopted legislation.**

2. **Reallocations:** Movement of an unencumbered appropriation balance between appropriation accounts within the same fund. Reallocation changes the unencumbered balance of appropriation accounts but does not change the fund's total appropriations. Reallocations do not require board adopted legislation when inside the fiscal officer's legal level of control. Reallocations always require board adopted legislation when outside the fiscal officer's legal level of control. **The legal level of control must be understood by the governing board and the fiscal officer so proper legislation is adopted as required <u>before</u> appropriations are reallocated.**

LEGAL LEVEL OF CONTROL

A level of control over appropriation budgets is established by the format of the adopted legislation. This means that the level of detail used to present the appropriation amounts by fund and program and object code, on your permanent appropriation legislation document, sets the legal level of control for your entity the entire year.

Appropriation legislation documents vary entity to entity, therefore, the legal level of control varies entity to entity. Often the governing board and fiscal officer are not aware the legal level of control is established by the format used in their legislation.

The legal level of control does **not** change your appropriation account structure. It simply establishes the level of appropriation control the governing board retains under their authority and establishes the level at which appropriations can be managed without adopted legislation.

Ohio Revised Code (ORC) states that the legislative body of a local government may **not** delegate its authority to establish appropriations.

The detail established in the **annual appropriation legislation** determines the legal level of control. It cannot be changed once it is established; not by motion or additional legislation. What does that mean? UAN Support personnel are often told, “my board made a motion or gave me permission to do this whenever I needed”. Clearly, ORC does not permit the board to delegate the legal level of control they established. UAN Support personnel cannot advise you whether you require board adopted legislation to approve reallocations you make in the software.

If the governing board wants the fiscal officer to have more ability to reallocate without legislation, they can establish less control next year by adopting permanent appropriation legislation with the format representing the control they want. But you are required to manage the appropriations with the legal level of control established with the adoption of the permanent appropriations this year.

The following is a review of what you have learned about appropriation program and object types important for understanding appropriation legislation formats.

Pause the video to review the next section. The video contains a short version of the review.

REVIEW OF APPROPRIATION FUND, PROGRAM AND OBJECT CODES

Fund: This refers to the name of a fund, indicated by the first four numbers in the appropriation account. The word fund never means an appropriation account. You are not permitted to avoid the legal level of control by appropriating 100% of a fund’s resources at the fund level.

Appropriation Programs: The program is the second group of numbers in an appropriation account and its name describes a service area provided by the entity. All appropriation program codes belong to a program type, but you do not appropriate to a program type. Within each of the program types, are individual program codes. The chart below shows a few program codes from the township general government program type:

Township General Government Program Types	Program Range 100
Administrative	110
Townhalls, Memorial Buildings and Grounds	120
Zoning	130

We see within the general government program type, Administrative 110, Townhalls 120, and Zoning 130. There are other programs within this program type, but we only need a sample to establish the concepts for programs in all of the charts of accounts. As we proceed with the subject of legal level of control, remember that "program" refers to the individual programs at this level, such as 110, 120 and 130 – not the program *type* general government. Programs play an important part in establishing the legal level of control.

Appropriation Objects: The third group of numbers in an appropriation account is the object code. Object codes represent the purpose of an expenditure. All appropriation object codes belong to an object type. Object types are assigned a range of numbers. Within each object type are sub-summary and detail object codes.

Remember from Fund Accounting 102 that your Appropriation account structure may use object codes at the summary, sub-summary, or detail level. Below is a small section of township object codes for purchased services, the 300 range:

Object Codes	Object Level	Description
300	**Summary**	Purchased Services
310	**Sub-Summary**	Professional & Technical Services
320	**Sub-Summary**	Property Services
330	**Sub-Summary**	Travel & Meeting Expenses
340	**Sub-Summary**	Communications, Printing, and Advertising
350	**Sub-Summary**	Utilities

Above, you can see the summary object code for purchased services is 300.

The sub-summary codes within the 300 range provide more specific meaning than the broad summary title. As you see on the chart, the Sub-Summary codes listed within the summary range are 310, 320, 330, and so on. They are different groups of purchased services; they all belong to the purchased services object group.

Under the sub-summary codes, there are detail object codes that provide more precise definition than the sub-summary codes. Below is the chart from Fund Accounting 102 showing the township sub-summary code 350 utilities followed by the detail codes for 351 electricity, 352 water and sewer, and 353 natural gas.

Township Sample		
Object Codes	**Description**	**Object Level**
300	Purchased Services	Summary
350	Utilities	Sub-Summary
351	Electricity	Detail
352	Water and Sewer	Detail
353	Natural Gas	Detail

You can use appropriation object codes at the summary (purchased services), sub-summary level (utilities) **<u>or</u>** you can choose to use the detail codes for individual utilities (electricity, water & sewer, and natural gas), but you should not mix the types within the same range (e.g. 350 utilities a sub-summary account *and* 353 natural gas a detail account).

As we proceed with the subject of legal level of control, understand that that the object level on the appropriation legislation could be presented at the object summary level (e.g. 300 purchased services) even when your appropriation account structure contains sub-summary and detail accounts.

Just like the amended certificate groups several revenue accounts into two groups, taxes and other sources, you still enter revenue budgets at the individual revenue account level. The appropriation legislation format can be the same. There are appropriation accounts that can be grouped and presented as a total, creating the authority to reallocate between the accounts within the group.

That gives you the language basics now you must understand a major point: The purpose of the permanent appropriation legislation is to authorize the permanent appropriations and at the same time set the legal level of control for the year. The legislation format does not have to show appropriations by individual appropriation accounts.

SAMPLE LEGAL LEVEL OF CONTROL FORMATS

Now that you have appropriation account structures fresh in your mind, we can cover examples of the formats that can be used in appropriation legislation and what they mean in terms of legal levels of control.

The Ohio Revised Code (ORC) requires the governing board **to retain** control over some reallocations, but not over every single appropriation account. The ORC minimum format offers the most appropriation accounts for reallocation within the legal level of control but it is rarely used. It is the same format used in the annual tax budget.

SAMPLE 1: ORC Minimum requirements:

The ORC minimum requires every fund's appropriations to be allocated by each program and then within each of these programs the appropriations must be allocated into at least two object groups:

- Salaries: meaning all the program's appropriation accounts with a salary object code. Some programs will have multiple salary accounts and others will have only one.
- Other: All of the remaining object codes for the program can be combined into the "other" object group.

The ORC minimum level of control **requires** the governing board to retain control over all appropriations made to each program. The fiscal officer has no authority to reallocate appropriations between appropriation accounts in different programs without board adopted legislation.

ORC allows the governing board to give the fiscal officer some reallocation control when reallocating between appropriation accounts within the same program that has both object groups, salary and other. The fiscal officer has authority to reallocate between all appropriation accounts in each of the two presented object groups.

- The Salaries object group may contain multiple salary accounts that have sufficient unencumbered appropriations; therefore, these accounts could be reallocated without board adopted legislation.

- The Other object group contains many appropriation accounts (e.g. Medicare, state, retirement, insurance benefits, contracted services, and supplies. It is really all other object codes in the program except the salary accounts. This provides the fiscal officer with the legal level of control to reallocate all appropriation accounts within the Other group without board adopted legislation.

Pause the video and review the next section of the book.

The chart below is a sample of the ORC minimum level of control format for a township general fund containing a few programs (100, 120 and 130):

General Fund Programs/Object groups	Appropriation Budget
110 - Administrative - **Salaries**	$45,000.00
110 - Administrative - **Other**	$147,560.00
120 - Townhalls, Memorial Buildings, and Grounds - **Salaries**	$25,000.00
120 - Townhalls, Memorial Buildings, and Grounds - **Other**	$41,850.00
130 - Zoning - **Salaries**	$6,750.00
130 - Zoning - **Other**	$7,700.00
760 - Capital Outlay - **Other**	$15,000.00
Total All General Fund Programs	**$288,860.00**

Each program is listed with appropriations separated into two **object groups,** salaries and other ("other" being every object type that is not a salary). Note that the capital outlay program in our sample does not have the salary object group because we do not need to budget any salaries in that program. This illustrates that if one of your programs does not require both object groups, you can omit the group that is not required. In addition, many funds contain only one program, therefore, they are not as complex as this general fund example.

When permanent appropriation legislation is adopted at this level, the fiscal officer must take the numbers from each object group and allocate the amounts to individual appropriation accounts.

The chart below shows the allocation of appropriations to our sample township appropriation accounts in the Administrative (110) program and the object groups Salaries and Other from:

Appropriation Accounts	Account Description	Account Budget	Legislated Budget
1000-110-111	Salaries – Trustees	$20,000.00	
1000-110-121	Salary – Township Fiscal Officer	$25,000.00	
	Total 110 - Administrative - Salaries	-	**$45,000.00**
1000-110-211	Ohio Public Employees Retirement System	$16,500.00	
1000-110-212	Social Security	$500.00	
1000-110-213	Medicare	$750.00	
1000-110-221	Medical/Hospitalization	$49,000.00	
1000-110-223	Dental Insurance	$6,000.00	
1000-110-230	Workers' Compensation	$2,300.00	
1000-110-311	Accounting and Legal Fees	$5,000.00	
1000-110-312	Auditing Services	$10,000.00	
1000-110-313	Uniform Accounting Network Fees	$2,500.00	
1000-110-314	Tax Collection Fees	$15,000.00	
1000-110-322	Garbage and Trash Removal	$950.00	
1000-110-330	Travel and Meeting Expenses	$1,500.00	
1000-110-341	Telephone	$1,000.00	
1000-110-342	Postage	$400.00	
1000-110-345	Advertising	$350.00	
1000-110-350	Utilities	$6,750.00	
1000-110-360	Contracted Services	$9,000.00	
1000-110-370	Payment to Another Political Subdivision	$2,800.00	
1000-110-382	Liability Insurance Premiums	$15,000.00	
1000-110-383	Fidelity Bond Premiums	$2,500.00	
1000-110-410	Office Supplies	$1,500.00	
1000-110-420	Operating Supplies	$10,000.00	
1000-110-510	Dues and Fees	$1,760.00	
	Total 110 Administrative – Other		**$147,560.00**

This illustrates how the appropriations from the legislation (establishing the legal level of control) are allocated to individual appropriation accounts within the two object groups in the administrative programs. The appropriation account allocation must balance with the totals in the appropriation legislation.

Start video again.

So appropriations have to be separated by fund, again by programs and into a minimum of two object groups, salaries and other. Let's look at the first level of control – the Program.

In a fund with multiple programs, the ORC minimum level of control requires the governing board to retain control over all appropriations made to each program. The fiscal officer has no authority to reallocate appropriations between different programs. This will require the governing board to adopt reallocation legislation every time!

Now consider one program within a fund that has both object groups. Here is where ORC allows the governing board to give the fiscal officer some control. The fiscal officer has authority to reallocate between all appropriation accounts within each presented object group.

- If the salaries object group contains multiple salary accounts, the fiscal officer can reallocate between them without board adopted legislation.

- The other object group contains many appropriation accounts (e.g. employer share of Medicare and retirement, insurance benefits, contracted services, supplies, etc.). The fiscal officer can reallocate between these accounts in the other object group without board adopted legislation.

The fiscal officer has no authority to reallocate from an account in the salaries group to an account in the other group without board adopted legislation.

This legal level of control allows the fiscal officer considerable reallocation authority without board approval. Now that you understand the minimum, note that it is rarely used for the format of appropriation legislation – most likely because governing boards and fiscal officers are generally unaware that their appropriation legislation sets the legal level of control, and therefore do not take advantage of the flexibility of this format.

SAMPLE 2: "See Attached"

A common format for appropriation legislation is to use a "see attached" clause. The fiscal officer uses a standard form for the legal language for appropriations then types in the words "See Attached". The document that is attached to the legislation has been generated from the UAN software by entering the appropriation budgets for each appropriation account and is usually the Appropriation Budget or Appropriation Status report.

While this method is very easy for the fiscal officer, the format of the attached document contains appropriations at the individual appropriation account level, setting the legal level of control at the individual appropriation account. The governing board must adopt legislation for every reallocation throughout the year. You cannot get any stricter than this.

The governing board and fiscal officer are probably not aware they established the legal level of control on each appropriation account by this method.

SAMPLE 3: Appropriation Book

Our last example of a common legislation format is the appropriation book. It was an 8 ½ by 14" paper book that contained appropriation language and an area to fill out for each fund, program and object group. The format of this book is less strict than the "see attached" clause but is still stricter than the ORC minimum. It separates each fund into programs, the same as ORC minimum, so the same rules apply at this level, but the object groups are presented individually as you see in the sample below:

That there be appropriated for GENERAL GOVERNMENT:

General Government		
Administrative		
Personal Services	$	_______________
Employee Fringe Benefits	$	_______________
Purchased Services	$	_______________
Supplies and Materials	$	_______________
Other	$	_______________
Capital Outlay	$	_______________
Debt Service	$	_______________
Other Financing Uses	$	_______________
Townhalls, Memorial Buildings and Grounds		
Personal Services	$	_______________
Employee Fringe Benefits	$	_______________
Purchased Services	$	_______________
Supplies and Materials	$	_______________
Other	$	_______________
Capital Outlay	$	_______________
Debt Service	$	_______________
Other Financing Uses	$	_______________
Zoning		
Personal Services	$	_______________
Employee Fringe Benefits	$	_______________
Purchased Services	$	_______________
Supplies and Materials	$	_______________
Other	$	_______________
Capital Outlay	$	_______________
Debt Service	$	_______________
Other Financing Uses	$	_______________

Each object group contains the combined total for all the appropriation accounts with corresponding object codes. All the salary accounts are combined into Personal Services, all the Benefits (Employer share of Medicare, retirement insurance, etc.), combined into one group, and so on. When this level is used to present appropriations on the legislation the fiscal officer has the authority to reallocate between the accounts within the same object group of a program but the Governing board has to adopt legislation authorizing all reallocations between the object groups of the same program.

So if you have four detail appropriation accounts in the Supplies and Materials object group then the fiscal officer can reallocate between these four accounts without legislation. But the fiscal officer cannot reallocate from an account in Capital Outlay to an account in Debt Service.

The fiscal officer still enters the appropriation budgets by individual appropriation accounts. But the legal level of control established by this format is at **each object group** – the fiscal officer cannot reallocate between accounts in different object groups, even if the accounts are in the same program.

This commonly used format also sets a more limited legal level of control than the ORC minimum.

Auditors are required to determine the legal level of control established at the beginning of the year, confirm that reallocations outside the legal level of control were authorized by board adopted legislation, and ensure the fiscal officer has not exceeded the legal level of control.

Understanding your locally established legal level of control is important and can be found by reviewing the permanent appropriation legislation adopted at the beginning of the year.

CONCLUSION

In Governmental Fund Accounting 103 Chapter 1 you learned:

- How and when to make changes to your certified resources available (amended certificate). Certifying new money and reducing the certified estimated revenue.
- Supplemental appropriations always change the total fund appropriations and always require board adopted legislation.
- Reallocation of appropriations do not change the total fund appropriations; it is the movement of the unencumbered balance from one appropriation account to another. May require board adopted legislation when outside the fiscal officer’s legal level of control.
- The legal level of control is established by the format of the permanent appropriation legislation each year.

CHAPTER 2: BUDGET & CASH MANAGEMENT

In this section, we will cover some transactions that are not part of the average day to day work. They are more complex than posting a receipt or payment and require a solid understanding of the two budget components.

INTERFUND TRANSFERS

Interfund transfers are the **permanent** movement of cash from one fund to another. Remember that a fund is **not an appropriation account!** Interfund transfers are **not** the reallocation of unencumbered appropriations within a fund. Interfund transfers spend the unencumbered appropriations from a Transfer Out appropriation account in one fund is received in a Transfer In revenue account in the receiving fund. The process involves cash and both budget components.

Transfers not authorized by Ohio Revised Code require a court order. Be sure your governing board consults their legal advisor before considering an interfund transfer involving restricted cash.

To process an Interfund transfer you need the following items:

1. The funds involved must be permitted by law to participate with each other in an interfund transfer.

2. There must be sufficient unencumbered appropriations available in the transfer out appropriation account in the sending fund. If there are not sufficient unencumbered appropriations, there must be legislation adopted for supplemental appropriations **or** a reallocation of current appropriations (which would also require legislation if outside the legal level of control).

3. The board must adopt legislation authorizing the fiscal officer to process the transfer between funds.

4. If the Transfer In revenue was not already certified on the amended certificate **in the receiving fund** then the fiscal officer must request a new amended certificate from the county auditor. Once the new amended certificate is received a supplemental revenue budget is entered in the receiving fund Transfer In revenue account.

In addition, if the cash transferred to the receiving fund was needed to supplement appropriations, then the governing board, upon receipt of the new amended certificate, must adopt supplemental appropriation legislation. Once authorized by appropriation legislation the fiscal officer enters the supplemental appropriation budget on the appropriations accounts.

You can see Interfund transfers must be incorporated into the **operating budget**! If the Interfund transfer is not planned at the beginning of the year this is not going to be a quick or easy solution for a cash crisis! It has to be planned and all the legislation adopted.

Debt retirement commonly involves interfund transfers. Loans are sometimes paid from a debt retirement fund that has no revenue source of its own. Therefore, all revenue is transferred in from one or more funds that contribute to the debt payments. Loan principal and interest is then appropriated and paid from the debt retirement fund. In this type of situation, legislation is generally in place authorizing interfund transfers on an ongoing basis with cash flow of the sending fund(s) to provide sufficient revenue to the debt retirement fund to make timely debt payments. The legislation remains in place authorizing the transfers until the debt is paid in full, and then the transfers cease.

Less common interfund transfers occur when the governing board considers a transfer of cash between funds mid-year that was not already included in the components of the operating budget, e.g., the cemetery fund is not going to receive enough revenue to continue operations, therefore we will transfer (permanent movement) money to the cemetery fund.

UAN Support receives many calls from fiscal officers who have attempted to process an interfund transfer that was not budgeted at the beginning of the year. They have usually completed steps 2 and 3 but do not understand the laws (step 1) and fail to complete steps 4 and 5. Interfund Transfers are **NOT** an action the fiscal officer can take without the legislative action of the board **and** required changes to both budget components!

INTERFUND ADVANCES

An Interfund Advance is a "loan" of cash from one fund to another. They are generally used to help with a cash flow shortage for a short period of time or sometimes in a capital project fund when the money has to be spent first then a grant reimburses you when you prove you met the grant criteria.

Interfund advances always require board adopted legislation. This is a temporary loan, the receiving fund **must** pay back 100% of the advance within twelve months and if not paid back before the current fiscal year ends, the unpaid advance affects the resources available in the new year.

To process an Interfund Advance you need the following items:

1. The funds involved must be permitted by law to participate and to **participate with each other** in an Interfund advance.
2. Always evaluate whether the sending fund will be able to continue operations until the loan is repaid. Do not create a cash flow problem in one fund to resolve the cash flow problem in another.
3. There should be a plan to repay the advance.

4. The board must adopt legislation authorizing the fiscal officer to process the initial advance. Then adopt legislation authorizing the repayment. Repayments can be made in increments, as money flows in, or at once.

Although the processing of an Interfund advance uses the appropriation and revenue accounts for Advance In and Advance out, these accounts are **never** budgeted. These accounts are used to post the Interfund Advance so they appear on the annual financial report.

When is an Interfund Advance useful?

- When you have a Levy-supported fund that only receives tax revenue 2x/year but bills are paid each month.
- Revenue estimates are accurate **and** there are sufficient appropriations, BUT . . .
- Cash is insufficient for current expenses!
- Cash will be received with the next tax distribution – thus allowing repayment
- An advance would help this cash shortage!

An **example** of when an advance may be suitable: A special revenue fund that receives 100% of its revenue through the first and second half tax distributions. An excerpt of the amended certificate for this fund looks like the sample below:

Beginning Cash Balance	Taxes	Other Sources	Total Resources Available
$22,000.00	$125,500.00	$0.00	$147,500.00

- For our example let's say that $75,300.00 was received with the first half tax distribution.
- Expenditures are made on a monthly basis for usual operations.
- Revenue comes in only two months of the year while expenditures are made every month.
- Adopted appropriations for this fund can be up to the $147,500.00 resources available, but the cash will not be fully received and available until after the second half tax distributions and spending will deplete the cash balance during the months that no revenue is received.
- The amended certificate and the appropriations are budget components, and therefore do **not** reflect a current cash balance.

The fiscal officer must keep the board informed on the cash flow of this fund. If large expenditures take place (infrastructure improvement, equipment purchase, etc.), cash in the fund may be depleted before the second half taxes are received. In this case, the board is certain the remaining budget balance will be received by late August. Therefore, this fund would be an excellent example of how an interfund advance can compensate for a short period of time when the resources available are accurate and appropriations are sufficient but cash is needed temporarily to continue operations. The key in this scenario is that appropriations are sufficient for operations – cash flow is the only problem. An Interfund Advance will alleviate the cash shortage, and once the receiving fund posts the second half tax distribution receipt the board can adopt legislation to repay the advance.

UAN Support receives many calls from fiscal officers attempting to post payroll or pay bills when a fund has an insufficient cash balance. Cash shortages should not be a surprise! The monthly financial statements issued to the board should be reviewed to determine if action is necessary **before** a cash shortage happens. It is very important for the fiscal officer to report to the board if cash flow may require legislative action.

When is an Interfund Advance not useful?

- When Revenue estimates accurate BUT cash and appropriations are insufficient to pay for operations.
- There is no variance to make additional appropriations.
- This is NOT a cash flow problem – this fund does not generate enough revenue to operate!
- Advances do not increase the resources available for appropriations! Advances only supply temporary cash. The appropriations in the fund must be sufficient to pay for operations for an advance to be useful.
- Do not consider an advance if the receiving fund cannot repay the advance.

An Advance cannot fix a lack of sufficient appropriations!

An **example** of when an advance will **not** be useful: A cemetery fund that receives 100% of its revenue through the first and second half tax distributions. The fund receives very little income from the levy that has been renewed at the same rate for many years. Gasoline prices, wages electricity, and other fixed expenses have increased over the years, but the board has not placed a new or replacement levy on the ballot. Last year the board got a loan to purchase a new backhoe. The first payment is due this year, but the debt payment was not budgeted because there are not enough resources to budget the debt payment! An excerpt of the amended certificate for this fund looks like the sample below:

Beginning Cash Balance	Taxes	Other Sources	Total Resources Available
$22,000.00	$15,500.00	$0.00	$37,500.00

- For our example, $7,900.00 was received with the first half tax distribution.
- Expenditures are made on a monthly basis for usual wages, mowing and cemetery operations.

- Revenue comes in only two months of the year while expenditures are made every month for wages, electricity, gasoline, etc. The fiscal officer has received a bill for the first loan payment of $10,000.00. The bill will need to be paid before the second half tax payment is received.
- The board adopted appropriations for this fund are $37,500.00 the maximum resources available, there is no variance. The current appropriations cannot be reallocated by $9,000.00 to make the debt payment without ceasing all cemetery operations and laying off the employee.
- Even though more cash will be received and available after the second half tax distributions, that cash will be required to pay wages, electricity, gasoline and other fixed costs.
- This fund will NOT have enough income to continue paying for current operations AND repay an advance.
- An advance would NOT increase the resources available and allow for more appropriations for the debt payment – an advance would only place cash in the fund to continue to pay items under the current appropriations.

This is not a situation that an Interfund Advance will be useful. The board should have placed a new levy on the ballot BEFORE purchasing a new backhoe! They should not have entered into the debt without the ability to repay the debt! The general fund will either have to pay the debt or the board will have to authorize an Interfund transfer to permanently transfer the cash from the general fund to the cemetery fund so the debt can be paid this year. What about the next five years the debt payment must be paid? Advances cannot be used to place a bandage on bad planning.

Interfund Advances should be paid back within the same fiscal year but may be legally repaid within twelve months of the initial advance. If they are not paid back prior to year end, they will be listed on the ***Certificate of the Total Amount from All Sources Available for Expenditures, and Balances*** as advances not repaid (a negative entry on the fund that owes the money and a positive entry on the receiving fund). Therefore, unpaid advances that carry over into the new year impact the resources available in both funds.

Keep your governing board informed about all unpaid advances and be prepared to advise how much can be paid back at each meeting until they are paid in full. Unpaid advances do not go away – they must be repaid.

MONITORING THE BUDGET

Fiscal officers must continuously monitor both components of the budget and the unspent balances on purchase orders. A quick review of reports at the end of the month will help you stay ahead of problems. You should always keep the governing board and department heads informed when budget shortages are beginning to show.

You must understand your legal level of control so you know what you can reallocate on your own, and when the board is required to adopt legislation.

MONITOR REVENUE BUDGETS

Monitor the revenue budgets by fund and individual revenue accounts, comparing estimated revenue (revenue budget) to actual receipts. UAN reports that are helpful in this process are the Revenue Status and Revenue Ledger.

The **revenue status** report lists each revenue account by fund and compares the revenue budget to actual receipts, shows the budget balance, the % received to date and totals all columns by fund. It is useful to see a snapshot of individual revenue accounts and fund totals.

The r**evenue ledger** shows the original budget, each receipt posted against the revenue budget, and the remaining budget balance. The revenue ledger is useful to review individual receipt postings to verify they were posted to the correct account. Posting errors will cause incorrect budget balances!

*****The UAN software contains a new report, released after the videos were recorded, that will be helpful in evaluating the cash flow of your funds. The Cash Flow Summary and Cash Flow Detail (Fund reports). These reports will help you and your governing board identify the inflow of revenue and the outflow of expenditures.

Note that you must understand the revenue flow of each revenue account in order for the revenue status "% received" column to be meaningful. Look at each revenue account – understand what is posted to the account and understand how often you receive revenue to determine if it is on track. We will cover this in more depth in just a minute.

You should also evaluate the fund's total revenue budgets compared to total revenue received – the revenue status report is good for this. So you do not just look at each fund's individual accounts but you also pull back and look at the fund as a whole – especially when a fund – like the general fund – receives various sources of revenue at different times of the year.

I want you to understand how each revenue account has its own revenue flow; money comes in at different paces.

Account Code	Account Name	Revenue Budget	Receipts	Budget Balance	% Received
1000-101	General Property Tax - Real Estate	$110,000.00	$71,523.52	$38,476.48	65.021%
1000-301	Licenses and Permits	$1,500.00	$0.00	$1,500.00	0.000%
1000-303	Cable Franchise Fees	$24,000.00	$12,144.47	$11,855.53	50.602%
1000-532	Local Gov Distribution	$84,500.00	$19,912.97	$64,587.03	23.566%
1000-533	Liquor Permit Fees	$1,200.00	$0.00	$1,200.00	0.000%
1000-534	Cigarette License Fees	$55.00	$0.00	$55.00	0.000%
1000-535	Property Tax Allocation	$300.00	$0.00	$300.00	0.000%
1000-701	Interest	$6,000.00	$2,563.07	$3,436.93	42.718%
1000-802	Rentals and Leases	$200.00	$125.00	$75.00	62.500%
	Fund Revenue Status	**$227,755.00**	**$106,269.03**	**$121,485.97**	**46.659%**

We are looking at a sample of a general fund revenue status that shows various sources of revenue and several revenue accounts.

Two accounts receive postings monthly; the Local Government money is distributed by the county about the same time each month and our general fund receives a portion of interest from all investments and the checking account each month. Your interest may not all be distributed monthly, so be sure you understand which investments and accounts are posting to the interest account in each fund.

The cable franchise fees are paid quarterly so I have to understand I only receive a distribution 4 times a year – the % received has to be evaluated based on quarterly distribution.

Property tax distributions are semi-annual; the county payment is received first followed by a much smaller state allocation.

Our sample Liquor permits and cigarette taxes are received once a year.

The zoning permits and town hall rental are consumer-driven revenue. I have no idea when someone is going to rent the town hall for a birthday party or purchase a zoning permit. Consumer driven revenue can be tricky and must always be monitored closely.

When I look at the fund % YTD received I need to understand if the % indicates the overall fund is on track based on when I should have of these revenues. Evaluate individual accounts as well as the fund total. Keep your board informed about cash flow for funds that have limited sources of revenue.

Remember our earlier chapter on changes to the amended certificate. If you see a substantial windfall or shortfall, evaluate the fund as a whole to see if you should request an amended certificate.

MONITOR PO/BC AVAILABLE BALANCES

In this section, we will use the term "purchase order" to refer to all encumbrance types, purchase orders and blanket certificates. Review all open purchase orders after bills are paid or at the end of the month before posting the bank reconciliation.

In the UAN software you prepare the bank reconciliation and save it when you reconcile, but you do not **Post** the bank reconciliation until you run a check over the budget items – one of these budget items is your open purchase orders. The encumbrance left on purchase orders that are no longer needed is locking away that unencumbered balance from other uses.

So review your open purchase orders and ask the following questions:

- Will any more payments be made from this purchase order?
    a. No: Close the purchase order so the unspent balance will be returned to the unencumbered balance of each appropriation account.
    b. Yes: Is the unspent balance sufficient for ongoing needs?
        i. Yes: No action needs to be taken.
        ii. No: Issue a new purchase order for the estimated amount needed with the current unspent balance of this purchase order. *Existing purchase orders cannot be increased.*

If you need to encumber additional appropriations but there is not a sufficient unencumbered balance on an appropriation account, you must consider other issues:

1. Can you close or reduce the encumbrance of any other purchase order applied to the same appropriation accounts? Use the Appropriation Ledger to identify other open encumbrances on the account, and then use the Purchase Order reports to review those open purchase orders. If you cannot reduce or close any other purchase order…

2. Review the appropriation accounts within your legal level of control to see if there is an account with an unencumbered balance that can be used to reallocate. If so, post the reallocation and issue the new purchase order. If not…

3. Review the unencumbered balance of the appropriation accounts in the fund that are outside your legal level of control. If unencumbered appropriations are available, the board can adopt legislation authorizing the reallocation of appropriations at the next meeting. If not…

4. Review the Comparison of Budget and Appropriated report to see if there are any resources available that have not been appropriated to the fund. If so, the board can adopt supplemental appropriation legislation at the next meeting. If not, check if there is another fund **permitted** to spend for the same purpose. If you do not have another fund permitted to spend for the same purpose, the board has no choice but to cut spending somewhere.

Make sure you are prepared at your next meeting if legislation is required for any reallocations or supplemental appropriations necessary to authorize the solution to the problem. Once the board adopts the legislation, enter the reallocation or supplemental appropriation then you can issue a new purchase order.

Reviewing open purchase orders is a regular housekeeping chore! A frequent review of your open purchase orders allows you and your governing board to review accurate unencumbered balances when spending decisions need to be made.

MONITOR APPROPRIATION BUDGETS

The key to monitoring the appropriation budget is to always review the purchase orders before you review the appropriation budgets. There are two UAN reports most helpful in the process. First, use the appropriation ledger to see the individual purchase orders and payments posted against each appropriation account. This review reveals posting errors on the appropriation accounts. Remember in Fund Accounting 102 I showed you my utilities appropriation ledger that had a purchase order for office supplies. When mistakes are found and corrected before month end your financial reports will reflect accurate unencumbered balances and help the governing board make good decisions.

For an overall look at each appropriation account use the appropriation status report. The appropriation status report lists each appropriation account by fund and allows you to see the final appropriation (appropriation budget), current reserve for encumbrances (balance remaining on open purchase orders), year to date expenditures, current unencumbered balance, the % spent, and totals all columns by fund. It is useful to see a snapshot of individual appropriation accounts and fund totals but you do not find posting errors using just the appropriation status report, always do a monthly check of the appropriation ledger after you have done your open purchase order review!

Not all expenditures are made in equal monthly installments. For example, utilities are paid monthly, but weather can substantially change natural gas and electricity bills. You cannot just divide the budget by twelve and multiply by the number of months remaining to see if you have enough to get through the end of the year. You must view each appropriation account individually and consider what is paid from the account and what may be needed for the rest of the year based on the past and current operations.

If you discover that an unencumbered appropriation balance is running low, make the following checks to be prepared:

1. Review the comparison of budget and appropriated report to see if there are any resources available that have not been appropriated in the fund (Variance). If so, the board can adopt supplemental appropriation legislation at the next meeting. The supplemental appropriation budget is entered on the appropriation accounts. If there is *not* a sufficient variance to make supplemental appropriations…

2. Review the appropriation accounts within your legal level of control to see if there is an account with an unencumbered balance that can be used to reallocate. If so, post the reallocation. You may want to discuss this with the department heads before taking away some of the unencumbered balance of an account they will need. If accounts within your legal level of control do *not* have any unencumbered balance to take…

3. Review the unencumbered balance of the appropriation accounts in the fund that are outside your legal level of control. If unencumbered appropriations are available to reallocate, at the next meeting the board can adopt legislation authorizing the reallocation of appropriations. After legislation is adopted, post the reallocation. If *no* appropriation accounts in the fund have sufficient unencumbered balance to contribute to a reallocation…

4. Check if there is another fund that is **permitted** to spend money for the same purpose. If so, discuss with your board issuing encumbrances and making payments from the other fund when the current unencumbered balance is depleted. If you do *not* have another fund permitted to spend for the same purpose, the board must cut spending somewhere!

Make sure you are prepared at your next meeting if legislation is required for any reallocations or supplemental appropriations. Stay ahead of these issues! You should never be surprised by a lack of appropriations. Monitor your appropriation unencumbered balance monthly to be prepared to solve these problems before they become a crisis.

MONITORING FUND CASH BALANCES

Now we are going to switch gears and talk about monitoring fund cash balances. We have been talking about monitoring the budget but we know that the budget components do not magically place money in your bank account. Cash balances fluctuate with receipts and expenditures. Review your cash balances before and after paying bills and posting payroll and of course at the end of each month to be able to advise your board if current balances and cash flow will support ongoing expenditures. Available appropriations and purchase orders do NOT represent the availability of cash to pay the bills!

Understanding cash flow in each fund will be important to determine when a project can be started or a purchase can be made. UAN Support often receives calls from fiscal officers trying to pay a bill when there is no cash in the fund. There may be sufficient resources available on the amended certificate and a sufficient unencumbered balance to certify the purchase order, but when it is time to pay, there is not enough cash in the fund because cash flow was neglected.

The timing in which a fund actually receives money affects its cash flow and operating budget.

A FUND THAT RECEIVES MONTHLY INCOME

Our components of the budget tell us the plan for each fund – for example:

The amended certificate shows how much we PLAN to have during the year. In this sample, it shows we have $29,235 cash available at the beginning of the year and expect to receive $54,000 giving us total annual resources available of $83,235.

Amended Certificate			
Unencumbered fund balance 12/31	**Taxes**	**Other Sources**	**Resources Available for Appropriation**
$ 29,235.47	$ -	$54,000.00	$ 83,235.47

In addition, the board has appropriated $80,000 – leaving a small variance of $3,235 not appropriated.

Board Adopted Appropriations
$80,000.00

But these are the **budget components!** They do not tell you about cash availability.

Since the videos were recorded the UAN software has added two new reports that show fund cash flow: Cash Flow Summary by Fund, and Cash Flow Detail by Fund. They display the posted cash flow of individual funds and can be very helpful for the fiscal officer and administration.

The chart below will help us understand the cash flow of a sample fund. This fund receives approximately $4,500 per month. That helps me to see how the cash flows into the fund. Let's make this a little more complex by adding expenditures.

CASH FLOW	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
RECEIPTS	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500
BALANCE	33,735	38,235	42,735	47,235	51,735	56,235	60,735	65,235	69,735	74,235	78,735	83,235

Below I created a chart for the same fund with monthly expenditures added. The monthly fixed costs are approximately $1,400 per month. You can see that the fund balance steadily increases until we have $36,400 in expenses in July; our regular $1,400 fixed costs plus $35,000. This could be a paving project for a township or village, the purchase of furniture or remodeling for a library, or a Fire or EMS department new piece of equipment. The point is we had to plan the $35,000 expenditure around our **cash flow** so we have money to pay the bill and we do not reduce the cash balance of the fund too low for operations.

When viewing the cash flow like this we see that we had $35,000 available by February, but if we spent it then, our fund balance would have been very low, leading to a possible cash crisis if we had repairs or maintenance that was unexpected.

CASH FLOW	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
RECEIPTS	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500
EXPENDITURES	(1,400)	(1,400)	(1,400)	(1,400)	(1,400)	(1,400)	(36,400)	(1,400)	(1,400)	(1,400)	(1,400)	(1,400)
BALANCE	32,335	35,435	38,535	41,635	44,735	47,835	15,935	19,035	22,135	25,235	28,335	31,435

The video skips down to the next sample.

The fiscal officer has to be knowledgeable about when money is received and what it costs to operate each month in every fund. The monthly revenue and cost of operations can be reviewed on prior year reports to get an idea of assumptions to use to create the charts above.

The governing board needs to be aware of cash flow to plan for a project or large purchase. A fund may have a large amount certified on the amended certificate **and** the board may have appropriated the full amount, **but the cash balance only increases when revenue is actually received! Remember, the budget is NOT cash!**

When planning the paving project, the entity may find that it will be necessary to take on a short-term loan (3-6 months) or consider an Interfund Advance of cash from another fund allowed by law to make the advance, to be repaid as revenue comes in each month.

Townships generally have more than one fund that can pay for road maintenance, so the project could be divided between multiple funds with the same restricted purpose. The fiscal officer still has to make sure the cash flow of each fund contributing to the project can support the expenditures and continue to meet monthly operating expenses.

Villages **may** also have multiple funds that support street maintenance, such as a Permissive Tax or Street Levy. Remember that the State Highway Improvement fund is **more restricted** than the Street Construction Maintenance and Repair fund – you can only spend State Highway fund money for work on state highways!

The board must consider how large the expenditures will deplete cash and form a complete plan. A fund may have enough current cash available to pay for a project **but the fiscal officer may not be able to continue to issue paychecks and monthly bills** if cash is depleted prematurely.

A FUND THAT IS LEVY SUPPORTED

Healthy fund example:

Here we have a fund that starts the year with a nice $72,127 carryover balance. The fund receives semi-annual tax distributions in March and August but no other income. Notice how the expenses fluctuate each month; that is more realistic. Even the electric bill will fluctuate month to month changing our total expenditures. Notice in June and December we have expenses in the amount of $52,800. Imagine this fund has to pay a debt payment twice a year. Before we entered into the debt we should have reviewed our cash flow and the semi-annual repayment schedule to make sure the fund could support the loan repayment.

CASH FLOW	JAN	FEB	MAR	APR	MAY	**JUN**	JUL	AUG	SEP	OCT	NOV	**DEC**
Cash 1/1	**72,127.14**											
Receipts	-	-	88,700	-	-	-	-	72,100	-	-	-	-
Payments	(7,800)	(6,200)	(8,000)	(4,900)	(7,000)	**(52,800)**	(8,000)	(6,300)	(6,000)	(7,800)	(680)	**(52,800)**
Balance	64,327	58,127	138,827	133,927	126,927	**74,127**	66,127	131,927	125,927	118,127	117,447	**64,647**

This fund is in good shape right now as far as cash flow, but notice that the year began with \$72,127 and is ending with \$64,647. If we continue at that rate for too many years, we will be in trouble. So when considering taking on a loan or a large capital outlay, you really need to know how it will affect the carryover balance and continued operations in the next year. If this fund will have the loan paid off next year it should not be a problem, but if the debt payments continue another ten years we would have to find some more revenue to keep the fund operating. See how you have to watch what happens to the cash monthly and year to year when considering debt and capital outlay.

The example depicted above shows a "healthy" fund. The cash flow has been carefully maintained so the semi-annual tax distributions and the debt payments do not create a cash crisis.

The video skips to the next example.

If the board is considering a large outlay from this fund it could be planned with the cash flow of the tax distributions and debt payments. If a need arises or an outlay requires a large expenditure before the tax distribution, then an Interfund Advance could be **planned to avoid** a cash crisis. This is only an option when the advance can clearly be paid back within twelve months.

Consider that this department wants to purchase new hose at a cost of \$8,000 and perhaps some other new equipment at a cost of \$17,000. In the cash flow chart above, none of the months would be substantially impacted by these expenditures between tax distributions.

Unhealthy fund example:

Now we will review an "unhealthy" example of a levy supported fund with the same revenue and expenditures but without the large beginning cash balance to support the highs and lows of cash flow. This unhealthy fund took on too much debt and the loan payments have reduced their carryover balance each year.

CASH FLOW	JAN	FEB	MAR	APR	MAY	**JUN**	JUL	AUG	SEP	OCT	NOV	**DEC**
CASH 1/1	8,000											
REC.	-	-	88,700	-	-	-	-	72,100	-	-	-	-
EXP.	(7,800)	(6,200)	(8,000)	(4,900)	(7,000)	**(52,800)**	(8,000)	(6,300)	(6,000)	(7,800)	(680)	**(52,800)**
BAL.	200	(6,000)	74,700	69,800	62,800	10,000	2,000	67,800	61,800	54,000	53,320	520

The fund begins the year with \$8,000, the January bills are \$7800 leaving only \$200 to operate until the first half taxes are received in March; probably after the bills need to be paid.

This fund is going to have a cash flow problem and the governing board should have had a plan in place to get this fund through the tough months. Notice that even if you consider an advance to get you through March when the tax settlement arrives, paying back the advance will be difficult. You would have to receive every penny of estimated revenue and reduce spending to the absolute essentials for this fund to make it to the end of the year and pay back an advance.

Even worse the fund ends the year with only $520 making it impossible for this fund to continue operations the next year. An advance would only be a band-aid on a true need for more revenue. The governing board should have seen this coming two years ago and got a new or replacement levy on the ballot for the voters to approve. Sometimes you cannot get the levy passed by the voters and have to consider cutting back service or transferring cash (permanently) on an annual basis to support operations. Once the debt is paid in full this fund could recover; at least until the next piece of equipment needs to be purchased.

The fiscal officer and governing board need to evaluate each fund on a regular basis to really understand the amount of debt or capital outlay the fund can support without a change in the revenue.

The video skips to the cemetery fund sample in the next section.

This unhealthy fund cannot support any additional capital outlay because monthly expenses require most of the cash by year end. If the department is in need of new equipment or major repairs, this fund would not be able to support the expenditures. The fixed expenses have depleted the cash balance to the point that the fund will no longer be able to support itself in the next year.

This is the last year this fund can operate without a permanent influx of increased revenue; either an annual transfer from the general fund or a new tax levy. The board needs to know when they must go to the voters for more levy money to continue operations.

If you have levy supported funds, the fixed costs and other expenditures should be reviewed. If the fixed costs for operations cannot be reduced, it is time for the board to consider how to increase revenue to the fund either by a transfer or levy increases. Until revenue is increased the cash flow will have to be monitored. Advances are not a solution if the fund will not have the cash to repay them.

A FUND THAT IS CONSUMER SUPPORTED

When considering the cash flow of funds that receive money based on consumer payments, you must always remember that consumers may or may not make purchases. There must be a plan in place to continue operations if insufficient revenue is generated by the consumers. We are not going to discuss making operations more efficient to reduce the fixed costs; that should always be considered by every entity, regardless of whether a cash crisis is involved.

Two examples of funds that operate based on consumers are water funds and cemetery funds.

Water Fund: Consider that a water fund pays for operating costs by the water usage of customers multiplied by the water rates. In the winter and early spring months, January through May, water usage is lower, therefore, monthly water bills that are generated on a per gallon rate are lower. As warm weather approaches, gardens are planted and watered, pools are filled, and continuing through the hot summer water usage is higher than in the cooler early months of the year. Therefore, water bills are higher or lower based on weather conditions and consumer use. In addition, water bills are usually generated for the prior month's water usage (via meter readings) so the higher billing months will be after the higher usage months.

If you looked at a revenue status report for a water fund at the end of June, the fund may not have received 50% of estimated water revenue even though the year is half over. Remember, consumer usage and billing is driving the cash flow of this fund. A very cool, wet summer may have a negative effect on the remaining estimated annual revenue and a very hot, dry summer may have a positive effect on the estimated annual revenue.

For a fund like this, the board should be careful to set rates so that cash flow is sufficient to operate year round. If a water fund (consumer and rate-driven) does not have sufficient monthly revenue to continue operations year round, the board must consider a rate increase. Rates must be able to generate enough income to pay for daily operations, perform required testing, maintain and repair the system, make any current debt payments, and make improvements as water quality regulations require.

Cemetery Fund: Our last example is a Cemetery fund that supported only by consumer fees. Consumer driven revenue can be very tricky to estimate. Since many of our clients have Cemetery funds supported by consumer-driven revenue I wanted to show an example.

In the cemetery fund you can estimate the graves sold and fees collected based on the average in the past several years but this is tricky, you cannot really know how much either will be, it is your best guess based on past history averages. Our estimates are below:

Graves Sold	20,000.00
Fees	5,250.00
Estimated revenue	**25,250.00**

The excerpt of our amended certificate below shows the unencumbered cash balance at the beginning of the year, adds the estimated revenue in the Other Sources column, and certifies the total Resources Available of $50,503.41.

Unencumbered Cash Balance 12/31	Taxes	Other Sources	Resources Available
25,253.41	0.00	25,250.00	50,503.41

However, the operation expenses can be estimated closely based on prior year cost of operations. A cemetery has fewer expenses in the winter, then when mowing starts employee and fuel costs increase then decrease again as mowing stops and cold weather is back.

The spending pattern of the fund can be pretty well planned, but you cannot make the consumer buy! It is very much need-based, but the government still needs to be able to pay for operations even when the revenue does not come in as planned. The governing board should be reviewing, discussing and getting a plan ready as the month's progress so there is no cash crisis!

Take a look at the chart below. Our problem is we have sold no graves and collected only a few fees this year. By June the governing board should be recognizing a problem may arise and start formulating some plans.

CASH FLOW	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
Balance 1/1	25,253											
RECEIPTS	-	-	**250**	**500**	-	-	-	-	-	-	-	-
EXPENDITURES	(2,500)	(2,500)	(3,500)	(4,500)	(4,500)	(5,500)	(5,500)	(4,500)	(3,000)	(1,000)	(1,000)	(1,000)
BALANCE	22,753	20,253	17,003	13,003	8,503	3,003	**(2,497)**	**(6,997)**	**(9,997)**	**(10,997)**	**(11,997)**	**(12,997)**

Would an advance be a good Idea? Or should the board just consider a permanent Transfer? Think about what you learned early in this Chapter.

An advance might be a good idea if we actually start receiving the anticipated revenue. But if we do not meet the revenue expectations we will not be able to **operate or pay back the advance**. So an advance is only going to work if we really think the revenue will roll in this year.

Advances should ONLY be considered if they can be paid back. So if an Advance was made and as the year end approaches and revenue estimates do not hold up, the board would need to consider making a permanent Transfer, not only to keep operations going but to repay the advance. **Advances MUST BE REPAID!**

So if Advance is their first plan of action and the revenue does not come in, the Permanent Transfer should be legislated so the advance can be repaid. It would be something your governing board would want to monitor closely each month to make the final decision in December before year end.

The video skips to the chapter conclusion.

A cemetery that is not self-supported (i.e. cannot operate solely on its own sales and fees or a levy) would not be separated into its own fund but would be budgeted under the cemetery program code in the general fund. If your cemetery is operated out of the general fund, your situation is different. You would not have a fund cash crisis unless your general fund is depleted.

At each monthly meeting January through May, the board should be aware that cash is being depleted and estimated revenue is not being received. If the board meets once during the first week of the month then action could be taken at the **June** meeting to stay ahead of the problem. The July meeting is **the last opportunity** to take action before the crisis. It is clear at the June meeting, by looking at the previous month's financial statements and understanding the monthly fixed costs of the cemetery operations, that a plan should be considered **and preparations made** so necessary legislation can be adopted to solve the cash crisis.

The fiscal officer will not be able to pay July bills and meet payroll obligations if the board is not made aware of the cash flow problem. This is not a problem the fiscal officer can solve; it requires a plan, and the board adopted legislation.

The consumer-driven nature of this fund and the responsibility of continuing to maintain the cemetery regardless of consumer sales should lead the entity to have a cash flow backup plan at the beginning of each year so that cash flow can be addressed as the year unfolds.

In June, when our sample cash crisis is approaching, the revenue estimates are not necessarily wrong; the sales just have not taken place **yet**. The graves could still be sold and the amount of open and close fees may also be received by the end of the year. The revenue estimates and the appropriations are not a problem at that point; the fund needs **cash** to continue operations because you cannot force consumer purchases.

Consider the following options, how they will play out, and what legislation must be in place:

Option #1: Advance cash from the general fund to the cemetery fund to be repaid this year. In our sample situation, the general fund has enough available cash to supplement the cemetery fund when consumer sales are not meeting estimates. **If we believe that the cemetery fund will still receive the estimated revenue** before year end, then an Interfund Advance from the general fund will solve the temporary cash flow problem and the cash can be returned to the general fund by year end. This is a short-term loan of cash. The fiscal officer must continue to monitor cash flow to make sure the repayment will not be a problem – and if it **is** going to be a problem, there must be a backup plan in place to solve that problem as well.

- The board must adopt legislation authorizing the advance of a specific amount of money to the cemetery fund. Advances are not budgeted, so you do **not** obtain an amended certificate or make supplemental appropriations. The fund simply needs a loan of cash; the revenue and appropriation budgets for current operations are already in place.

- Each month the board reviews the cash situation of the cemetery fund to see if the consumer-driven revenue is meeting the estimates. If at any point enough revenue is received to continue funding the operations and repay the advance, the board can adopt legislation authorizing the fiscal officer to repay the advance. Remember that the advance can be repaid in installments or all at once, but should be repaid by year end and by law must be repaid within twelve months of the initial advance. Review the chart below to see how our ideal scenario plays out.

CEMETERY CASH FLOW	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
RECEIPTS	-	-	250	500	-	-	-	8,000	9,500	7,000	8,500	6,000
CASH ADVANCE						**10,000**			**(5,000)**		**(5,000)**	
EXPENDITURES	(2,500)	(2,500)	(3,500)	(4,500)	(4,500)	(5,500)	(5,500)	(4,500)	(3,000)	(1,000)	(1,000)	(1,000)
BALANCE	22,753	20,253	17,003	13,003	8,503	13,003	7,503	11,003	12,503	18,503	21,003	26,003

In June you can see that the board addressed the cash flow problem by an advance so there would not be a crisis in July. In August and the remaining months, the grave sales and fees increased substantially. The board adopted legislation to repay half of the advance in September and adopted legislation to repay the remaining balance in November when it was obvious the fund would end the year with enough cash to continue operations in the new year.

What if the situation did not play out as well as shown above? As the year progressed, the sales did **not** take place and the advance **cannot** be repaid. At each monthly meeting the fiscal officer reviews financial reports with the board and shows that the cemetery fund has not received all of the estimated revenue, and there will not be enough cash to repay the advance **or** to continue operations in the new year:

CEMETERY CASH FLOW	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
RECEIPTS	-	-	250	500	-	-	-	2,000	1,500	-	250	-
CASH ADVANCE						**10,000**			-		-	
EXPENDITURES	(2,500)	(2,500)	(3,500)	(4,500)	(4,500)	(5,500)	(5,500)	(4,500)	(3,000)	(1,000)	(1,000)	(1,000)
BALANCE	22,753	20,253	17,003	13,003	8,503	13,003	7,503	5,003	3,503	2,503	1,753	753

Because of the abnormally low income from sales and fees in the current year, the fund did not receive enough cash to repay the advance. The crisis has only taken place because current year consumer revenue was far below average. This low average year may have followed a year with a major purchase that reduced the carryover cash balance.

If the unpaid advance carries over to the new year it will reduce the resources available in the cemetery fund, creating insufficient resources available for continued cemetery operations. The board can determine that the amount of money originally advanced should be made permanent before year end so the advance can be repaid and not continue to be a drag on the cemetery revenue. **However, they cannot just change an advance into a transfer!** The board must adopt legislation to make an Interfund Transfer of cash from the general fund to the cemetery fund, then adopt legislation authorizing the repayment of the advance. Once the advance is repaid the fund will close the year with a very low cash balance. In addition, the board and fiscal officer must understand that additional legislative action may be required to solve the cash flow problem in the next fiscal year if the receipt of consumer-driven revenue continues to be below average.

As you can see, when an Interfund Advance is made with the expectation of the ability to repay, the governing board can choose to allow the unpaid advance to continue to hinder the resources available or they can choose to permanently move the money through an interfund transfer so that the advance can be repaid. If the next year still has a cash flow problem, the board can address that in the new year by having a plan ready to implement.

The use of an advance for the temporary loan of cash as outlined in Option #1 should be based on the belief that estimated revenue **will be received** prior to the end of year (or twelve months from the initial advance) and if not received, a permanent transfer of cash should be the backup plan to repay the advance.

If you do not firmly believe that the revenue will be received before year end, then an advance is not the correct solution for a cash flow crisis. In the example above, nobody anticipated that there would be zero grave sales the entire year since it had never happened in the past. The advance was a sound decision because the general fund would have received repayment as grave sales and fees were received. However, an advance should never be used to solve a cash flow problem if a fund does not have a firm history of being self-supporting or if revenue estimates are known to be inflated and the revenue will not be received.

Option 2: A permanent Transfer of money without any anticipation of repayment. This option will require the fiscal officer and the board to reconsider estimates for grave sales and current appropriations to determine the amount of money necessary to meet current needs.

Review again the cash flow chart as of June.

CEMETERY CASH FLOW	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
RECEIPTS	-	-	250	500	-	-	-	-	-	-	-	-
EXPENDITURES	(2,500)	(2,500)	(3,500)	(4,500)	(4,500)	(5,500)	(5,500)	(4,500)	(3,000)	(1,000)	(1,000)	(1,000)
BALANCE	22,753	20,253	17,003	13,003	8,503	3,003	**(2,497)**	(6,997)	(9,997)	(10,997)	(11,997)	(12,997)

The governing board decides to permanently transfer cash to the cemetery fund. This is going to be very different than making an advance. There is no expectation of repayment, the transfer is permanent.

Many changes to the current operating budget and separate pieces of legislation must be adopted. The difference in this scenario is that the board does not consider the revenue estimates for graves sales and fees to be accurate due to very particular circumstances, such as, the economy is bad and competition from another cemetery that has lowered their prices making it clear that revenue estimates need to be reduced; our consumers are going elsewhere.

The board decides to reduce the grave sales and fees revenue estimates by half and to permanently transfer this lost revenue amount from the general fund to keep the cemetery resources available for appropriation the same.

See the changes in the chart below:

Source of Revenue	**Original Revenue Budget**	**Supplemental Revenue Budget**	**Updated Revenue Budget**
Carryover Fund Balance	**25,253**		**25,253**
Grave Sales	20,000	-10,000	10,000
Fees	5,250	-2,625	2,625
Transfer In	0	12,625	12,625
Resources Available	**50,253**	**No Change:**	**50,253**

Notice the very important fact that the Transfer In amount is making up for the reduced revenue estimates. The Transfer In amount does not increase resources available for appropriation because the original revenue estimates are being reduced. No changes to the cemetery fund appropriations are required. Since there is no change in the total annual revenue to the cemetery fund, an amended certificate is not required.

The following steps are required for this new Interfund Transfer:

a. There must be an unencumbered balance of $12,625 in the transfer out appropriation account in the general fund. If there is not a sufficient unencumbered balance, the board must adopt supplemental appropriation legislation or reallocate the current appropriations in the general fund to budget the unencumbered balance in the transfer out appropriation account.

b. In the cemetery fund, the fiscal officer will enter negative supplemental revenue budgets on the revenue accounts being reduced (grave sales and fees) and a positive supplemental revenue budget for Transfers In (two separate postings, positive followed by the negative).

c. There must be adopted legislation authorizing the fiscal officer to transfer $12,625 from the general fund to the cemetery fund.

d. The fiscal officer completes the interfund transfer.

The change in cash flow of our cemetery fund is illustrated in the chart below.

CEMETERY CASH FLOW	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
RECEIPTS	-	-	250	500	-	-	-	-	-	-	-	-
CASH TRANSFER						**12,625**			-		-	
EXPENDITURES	(2,500)	(2,500)	(3,500)	(4,500)	(4,500)	(5,500)	(5,500)	(4,500)	(3,000)	(1,000)	(1,000)	(1,000)
BALANCE	22,753	20,253	17,003	13,003	8,503	15,628	10,128	5,628	2,628	1,628	628	(372)

In June when the transfer is made the cash shortage has been resolved and the cemetery fund can continue to pay for operations, possibly through October but not through the end of the year!

This fund's revenue is consumer driven and very little can be done to stimulate revenue flow. The fiscal officer and the board will have to continue monitoring the fund receipts to see if an additional transfer will be necessary prior to year end.

When a fund that receives consumer-driven revenue is suffering from a lack of cash, the solution will be based on the reason for the cash shortage. The decision to advance or transfer cash into the fund should be based on the fund's ability to repay the advance:

- If the answer is "yes, we could still receive the revenue" then an advance is a good option because the general fund can be repaid. Remember that if the revenue is not received, a transfer of a sufficient amount of cash to the fund so the advance **can** be repaid may be needed. In the new fiscal year, the board will need to solve the continuing cash flow problem.

- If the answer is "no, we will not receive this revenue" then a permanent transfer is best.

CONCLUSION – CASH FLOW

UAN Support often receives calls from fiscal officers attempting to post payroll checks when there is not enough cash balance in a fund to pay the employees. The fiscal officer has not learned how to watch cash balance or revenue estimates to gauge cash flow and report to the board the financial condition of the fund. Now there is a crisis that cannot be solved by the fiscal officer without the legislative action of the board.

Remember that appropriations are based on **estimated** resources available. **Those resources must be received in order to be spent!** If revenue is not received as anticipated or if a large purchase depletes the cash balance, a plan must be in place to support ongoing operations of the fund. The plan may require adopted legislation to implement, so keep the board informed.

In governmental fund accounting, you must operate within your budget (revenue and appropriations) but you must also operate within available cash. Understanding cash flow will make it easier for you to assist your board with planning projects and large purchases and managing levy or consumer supported funds. The governing board will rely on you to keep them informed of the financial state of each fund and the entity as a whole.

It is not enough to print reports at the end of each month and submit them to the board. You must bring to their attention the need to watch incoming revenue and outgoing expenditures. The board must understand that when a fund balance is low, and the monthly expenditures are greater than monthly revenue this will indicate an upcoming crisis for the fund. Make sure the board is aware of any potential crisis so that legislation can be adopted before the crisis arrives!

CONCLUSION

In this chapter you learned about:

- Interfund Transfers: the permanent movement of cash between funds – A budgeted item.
- Interfund Advance: the temporary loan of cash between funds that must be paid back – NOT a budgeted item.
- Monitoring the budget for revenue budget balance, purchase order unspent balance and unencumbered appropriation balance.
- Monitoring the cash flow and keeping your governing board informed!

CHAPTER 3: DEBT & PROJECTS OVERVIEW

The video begins at the next section.

Often loans or large capital projects use money that does not flow through your bank account but still requires entries posted in your financial records. We will explore two common examples.

Both components of the budget must include the amounts to support entries required to be posted to your financial records. You must request an amended certificate for the grant or loan money, then the board must adopt supplemental appropriation legislation for the authority to spend the money.

Then you are required to post a receipt to show the grant or loan revenue, a purchase order to encumber the appropriation budget, and an electronic payment to show the expenditure to the vendor.

UAN Support often receives calls in January when a fiscal officer wants to post a grant from the previous summer into their books before closing the year, but they did not get an amended certificate and the board did not adopt legislation to appropriate the grant before year end.

You cannot turn back the clock to get these budget changes made. These items should always be incorporated into your budget components as the project starts, and the postings of the revenue and expenditures are made as the money is distributed, not at year end.

Understanding how loans and large projects are handled will help you be prepared.

NEW DEBT & UNDERSTANDING THE DEBT CEILING

A new debt that was not planned at the beginning of the year must be incorporated into the budget's two separate components. By new debt I mean a new loan of money from a source such as a bank, the OPWC, OWDA, EPA or other institution that offer government entities loans.

These financial institutions often do not distribute the loan money to the government entity to spend. Sometimes they require you to request payments be made directly to the contractors, engineers, and vendors as projects move forward. So the money does not actually go in and out of your bank account. However, the financial records of a government entity must contain the money you had the "use" of as well as the cash you spent, so your budget components reflect what the governing board has authorized **and** annual financial reports show the complete financial picture.

This is where fiscal officers often fail to comply with the requirements to "book" the loan. Because they did not have to deposit a check and the money was not direct deposited, and they did not have to issue a PO or write a check to a vendor, nothing has been posted to their "books". The fiscal officer and governing board still have to take action to incorporate the loan into the budget components and post receipts, POs and electronic payments so use of the money appears properly on the annual financial report. Remember a voucher is a paper document representing a payment that did not require a check.

In addition, many governing boards do not understand there is a limit to the debt they can enter into and they must verify they have the authority to enter into the debt before doing so. We will touch on the basic steps so you understand the process.

DEBT CEILING

An entity's debt ceiling refers to the amount of indebtedness to which the entity is limited by law. The limitation is measured by the entity's total tax valuation of properties listed on the general tax list and duplicates.

A call to your county auditor will help determine how your county handles certification that the intended loan is within your debt ceiling. The process varies among counties so you need to understand your county processes. Do you need to send a letter requesting certification and can you fax, mail or hand deliver the letter and how soon will you receive a response?

UAN support sometimes receives calls from fiscal officers who arrived at last night's meeting and were told that a trustee secured a loan (after the last meeting where it was not discussed) for a piece of equipment and the bank has already paid the vendor. The board then makes a motion for the fiscal officer to do everything needed to complete the process. **This is obviously the wrong way to handle acquiring new debt.**

INCORPORATING NEW DEBT INTO THE BUDGET COMPONENTS

Once the governing board knows they are within the debt ceiling. They and the fiscal officer have more work to do: For example:

- Consider the fund or funds that will repay the loan. If you are using restricted money is it permitted to be used for the purpose of debt repayment?
- Do you need a Capital Project fund to receive and spend the loan? Will you need a Debt Retirement fund for the loan repayment, or will it be paid from existing funds? Loan repayments are never made from a capital project fund. These are two separate items. Call LGS if you do not know which fund to use for the project and debt repayment.
- Consider the cash flow of the fund to be used for the loan repayment. How will the debt payments affect the cash flow within operation expenses until the loan is paid in

full? Will you cause a cash crisis in the fund before the loan has been fully repaid as we saw in our earlier example in Monitoring Cash Flow?

- Finally, when all these factors have been considered, adopt legislation authorizing the loan; this is only the beginning!
- Now the Fiscal Officer can request an amended certificate for the new debt revenue and enter a supplemental revenue budget. You will probably need to add a new revenue code to your account structure. Call LGS if you do not know which account to use.
- Upon receipt of the amended certificate, the governing board must adopt supplemental appropriation legislation to authorize the expenditure of the loan. Then the fiscal officer enters a supplemental appropriation budget.
- The fiscal officer can issue a purchase order to the vendor for the full purchase price.

Remember that even when your loan institution is directly distributing the loan money to the vendor you have to post the items on your books. I already told you how to set up the budget components and issue the PO to the vendor. Now it's a time to actually post the items

- Issue receipt: Use a Standard receipt unless the bank charged you a fee. For example you are borrowing $35,000.00 but the bank only distributes or gives you $34,501.00 because they charged you a fee of $499.00. The fee will require a purchase order to the bank from an appropriation account for this type of contractual agreement. If the bank charged a fee you can use a Memo receipt to post the full $35,000.00 loan as revenue and the $499.00 as bank fees for a net deposit of $34,501.00.

- Issue payment: There are several different methods your bank may use to distribute the loan money to the vendor:

  - If the bank distributed the loan money directly to the vendor post an electronic payment to print a voucher rather than a check.

  - If the bank distributed the loan directly to the vendor but you are also making a cash contribution you will also prepare a warrant to the vendor for your cash contribution. Both the electronic payment representing the bank's portion and the warrant representing your portion will post against the same purchase order.

  - If the bank deposited the loan money in your checking account to distribute to the vendor, you will prepare and post a warrant to the vendor.

REPAYMENT OF DEBT

The last step in handling new debt is to prepare for the repayment. You must understand that the posting of the debt revenue as a receipt and the purchase as a payment are completely separate from paying off the debt. Debt repayment would never be posted to the same appropriation accounts used for the purchase.

Debt payments must be posted to the correct fund's debt program and object codes for principal and interest.

When you enter into debt you should be provided with an amortization schedule; a schedule of principal and interest payments and the dates they are due until the loan is repaid. Review the amortization schedule to determine when the first and continuing debt payments must be made. Sometimes the first debt payment will not be posted until the next fiscal year and sometimes the debt payments begin in the current fiscal year requiring changes to the current year appropriations. The repayment of the debt should be budgeted and paid from funds authorized to make the debt payment and must be in accordance with the laws that govern the entity's funds and the debt agreements.

> First payment due same year: The board must adopt supplemental appropriation legislation **or** there must be a reallocation of current appropriations (most likely will require legislation) to the principal and interest appropriation accounts (add these accounts if they are not already active) in the fund(s) that will make the loan payment.
>
> First payment next fiscal year: Use your amortization schedule to determine the amount of principal and interest that will be paid during the next year. Include these amounts in your new year appropriations. Keep in mind that if a payment is due before permanent appropriations are adopted you must include the principal and interest payments in the temporary appropriations.

Note: When debt payments must be made from a debt retirement fund you will have to activate a new fund, revenue accounts, and appropriation accounts. You must budget any sources of revenue to the new debt retirement fund. You will need to know if the fund receives money transferred from another fund or if new revenue sources will be posted directly to the debt retirement fund. This will be specific to each entity, fund purpose, and debt agreement. Contact Local Government Services (LGS) for guidance to budget the debt payment correctly.

The loan documents, including the amortization schedule, should be organized and available for every future audit that includes any debt payments. The amortization schedule will also be necessary at every year end to complete the debt schedules on your annual financial reports, and when preparing budgets for each new fiscal year.

NEW CAPITAL PROJECTS

Our last section in this chapter is how to incorporate a New capital project into your current year. This is going to take some planning to incorporate the project into your budget and cash flow. We will review the separate issues that must be considered to plan a project from beginning to end.

When incorporating a new project into the operating budget you must incorporate the project into and manage both components of the budget:

- resources available certified on the amended certificate, and
- board adopted appropriations.

Even if the money is being distributed directly from a grant or loan to the vendor you MUST incorporate it into your budget!

Consider cash flow: Grant applications may outline the project at an early stage with initial cost estimates and then the plans and figures are changed as grant awards, rejections and bids are received. Understand how the grants and loans are to be distributed and the order they can be used.

The exact matching local share and loan amounts may not be known until final bids are awarded. As the project progresses, change orders approved by the board may also require additional local cash or loan money to be added to the project, requiring changes to resources available (amended certificate) and appropriations (adopted legislation). The project remains fluid until all final decisions are made. It is challenging to keep both of the budget components and the cash up to date with the required changes.

There are many different types of loans and grants. When you have multiple funding sources that are contributing to a project you have to understand all the sources and how they will distribute their portion. Each source of revenue has to be considered alone and in conjunction with other sources of revenue. Some funding is going to run through your bank account and others are going to be distributed directly to the vendor from the grant or loan provider. So although they are all part of one project you will have different types. Some examples of types of funding are:

- Reimbursing: Repays after project completion. That means you have to advance the cash for spending then the grant will pay you back. After which the advance must be repaid.
- Secondary: Specific order of funding access so you may have to spend your local cash and other sources of money before you can use another source. You need to know the order the funding will operate in the project.
- Simultaneously: Spent in conjunction with other funding as project proceeds. So when the contractor submits a bill for $10,000 it is approved and the amount is divided between the funding sources, for example, 50% grant 30% loan and 20% matching cash. Each funding source provides a portion of each approved payment request.

Understand how each funding source is going to flow into the project and the order each are going to be used. If you ignore these details and only consider they are all "revenue" you are going to run into trouble. These items cannot be crammed into one box. They are individual revenue sources for the project and may have different requirements.

The sample project in the book contains more details than the video.

In order to fully explain how to handle a new project, we need to present a sample for you to consider. Read the details to understand how the different funding and processes are handled within the budget components. This sample project has aspects that are specific only to this sample and are not meant to be exact instructions for all projects. Your projects will never look exactly like the sample; you must budget each project to your entity's particular requirements.

Our sample entity has decided to use a piece of undeveloped land for a **community park**:

- Last year the entity applied for five grants and received two grant awards and three denials. The original project plan that included all the grants has been altered based on the awards, and the project will be completed this year.

- The cash portion of the local match was budgeted in the general fund permanent appropriations as Transfers Out. The loan and grants were not included in the budget components at the beginning of the year because it was not known if the grants would be awarded or how much loan money would be needed. Funding such as grants and loans are budgeted once the project is going to proceed and are only budgeted in the year they will take place. *If you receive a grant award letter for a project that will take place <u>next year</u>, it is **not** incorporated into the current year budget, it will be incorporated into the new year operating budget when the project takes place.*

- In the Grant #1 application, the entity pledged $25,000 as a local matching share and the governing board plans to **borrow** part of the local match ($15,000.00) so the operating cash is not depleted. We will use a capital project fund for our example. Because we want the capital project fund to present the entire project on the annual financial reports, the local matching cash will be transferred from the general fund to the capital project fund, and the local match loan proceeds will be posted directly to the capital project fund.

- The two grants for this project are different types:

    - Grant #1: The largest grant will be disbursed as the project proceeds through the approval of payment requests submitted by the engineer. This grant requires the use of the grant and local match to be shared on each payment. *Some grants require the use of a local match first before the grant begins paying; your grants will have specific instructions.* The governing board decided to use the local match cash first and then start using the local match loan*.* *Your grant and loan agreements along with the board will determine how your project will proceed.*

- Grant #2: The smaller grant is a "reimbursing grant" which requires the entity to pay for 100% of the portion of the project funded by the grant, and then submit invoices, canceled checks, and pictures of the completed grant-funded portion to receive reimbursement. This grant is for a small, specific part of the project – park benches. Once the purchase of the material and installation is complete and all invoices are paid and submitted as proof, the grantor will review the documentation to confirm that the expenditures comply with their criteria and reimburse the government with the grant amount. *Some reimbursing grants are for less than 100% of the project; your grant agreements will specify how that would be handled and your budget will reflect the project requirements.* The purchase and installation of the park benches will take place in the later stages of the overall project. Because the entity has to pay for this before being reimbursed, an advance for 100% of Grant #2 to the capital project fund will need to provide the cash to proceed. When the grant reimburses the entity, the advance can be repaid.

- As an added minor complication, there will be up-front expenses that must be paid by the entity before the project starts. Those up-front costs will be reimbursed when Grant #1 starts approving payment requests; the local match cash can only be used in conjunction with the payment requests and cannot be used for the up-front costs. This will require another advance of cash to the capital project fund that will be repaid once the payment request including the reimbursement of up-front costs is approved. The board needs to plan this advance at the beginning of the project, while Grant #1 does not require an advance until later in the project. They can be combined or legislated as separate advances. Remember that advances are not budgeted; they simply make cash available for expenditures.

Total project costs: Our sample project finalized costs are laid out on the chart below:

Community Park	Estimate
Engineering	$25,000.00
Bid Advertisement	250.00
Shelter House	15,000.00
Playground Equipment	75,000.00
Park Benches	1,000.00
Trees & shrubs	1,750.00
Mulch & Gravel	3,500.00
Paving walking path	7,500.00
Parking Lot	45,000.00
Landscaping	2,000.00
Total Project	**$176,000.00**

We also need to review the sources of revenue that will support the project:

Community Park	Revenue
Grant #1 State Grant	$150,000.00
Grant #2 Local Grant	1,000.00
Local Match – Loan	15,000.00
Local Match – Cash	10,000.00
Total Project	**$176,000.00**

We have enough planned revenue to support the project.

BUDGETING THE PROJECT

Next, the project must be incorporated into the two components of the operating budget: Always refer to the current chart of accounts and discuss your project with LGS to use the correct fund revenue and appropriation accounts.

In this case we would be setting up a new capital project fund and we would request an amended certificate for all the revenue that will come into the fund: Our amended certificate would show we started the year with a zero balance and all $176,000.00 of our estimated revenue would be certified in the "other sources" column giving us this full amount as resources available. Below are the sample revenue account names we use to enter our revenue budgets.

Revenue Acct	Est Revenue
State Grant	$150,000.00
Local Grant	1,000.00
Other Financing Sources	15,000.00
Transfer In*	10,000.00
Total Revenue Budget	**$176,000.00**

Once we receive the amended certificate the governing board can adopt supplemental appropriations. Below is the sample appropriation account name used for entering our appropriation budgets.

Board Adopted Appropriations	
Appropriation Account	**Appropriations**
Capital Outlay	$176,000.00
Total Appropriations	**$176,000.00**

Notice how the entire project is being budgeted to one account. You do not require separate account codes based on the sources of revenue; many fiscal officers confuse this issue. Do not try to separate your appropriations by revenue! Use the correct appropriation accounts for the expenditure purpose. Purchase orders will separate the costs by the vendor. It will be smarter and easier to use filing to keep track of pay requests and distributions for the different sources of funding.

Once the project is incorporated into both portions of the budget you will issue Purchase Orders to each vendor as contracts are signed. Before moving forward with the project the governing board and fiscal officer have to understand the cash flow of the sources of revenue.

We really need to consider cash flow before you start thinking this was pretty easy. I need you to understand cash flow with the different funding types.

Our local match money needs to be transferred from our General fund to the capital project fund. This is going to require unencumbered appropriations in the general fund transfer out appropriation account, **and** the governing board has to adopt legislation to authorize the interfund transfer. Having appropriations in transfer out is not sufficient to authorize the transfer.

If you have reimbursing grants you have to provide the cash to do this portion of the project, then once you document you have completed the portion the grant reimburses. They send you the grant and only then can the advance be paid back. So the board has to adopt legislation to make the initial advance; once the grant reimbursement takes place they adopt legislation authorizing the advance repayment.

Change orders made to the project that are approved by our funding sources often require changes to the entire budget structure. We may decide to expand the project a bit and contribute more cash. That would require more interfund transfer out appropriations and additional interfund transfers legislation **and** an amended certificate for the new transfer in revenue along with supplemental revenue budgets. Then the board would have to adopt supplemental appropriation legislation so the additional money can be spent! You also have to add a new purchase order for the additional amount.

The same kind of changes would take place if the bank agreed to loan us additional money. Addition legislation approving the loan (check debt ceiling first) and a new amended certificate to certify the additional revenue and supplemental appropriations to authorize the additional spending. You also have to add a new purchase order for the additional amount.

Change orders in large projects are very common and can be very complex when they increase the cost of the project.

POSTING DIRECT DISTRIBUTIONS

The last discussion point for the project is how the portion of the funding, not distributed through your bank account is posted through your financial records.

The fiscal officer must understand the method of communication when grant or loan money is disbursed directly to the vendors. Many options are used, confirmations by mail or email, online access to approved payment details, etc. The fiscal officer is responsible for making sure that these direct distributions are posted to the financial records in a timely manner.

Remember we already have our Purchase Orders to the vendors in place as the contracts are signed.

As the project payment requests are approved and payments are sent directly to the vendors, the fiscal officer will post receipts for each source of revenue that will be directly distributed to the vendor. This is often referred to as a memo entry, meaning it is a memo into and out of the entities financial records because the cash did not go through the bank accounts. However, it is not a Memo type receipt in the UAN software. Do not confuse the terms. A UAN Memo Receipt must have the same vendor for the source of the money and the payment of the fees such as the county auditor tax distributions. It is not appropriate to use a UAN Memo type receipt to post these project memo entries through your financial records.

In our example, a standard receipt is posted for the grant money from Grant #1 then an electronic payment (voucher) is posted to the vendors to represent the distribution of the grant money directly to a vendor. Prepare a warrant to spend actual cash for our cash portion of the pay request.

When posting the grants or loans directly distributed to the vendor be careful your receipts are equal to the electronic payments and keep these postings up to date. A sample pay request is outlined below.

Pay request #1 is submitted to our projects Grant #1 for $10,000. $2,000 is for the engineer and $8,000 for the contractor. When the pay request is completed and submitted to the grant the fiscal officer knows to be ready for the approval. Once the pay request is approved and distributed directly to the vendors (engineer and contractor) the fiscal officer posts the transactions through the capital project fund.

- A Standard Receipt for $10,000, the full amount of grant distributed, is posted from our Grant #1 as the source.

- Two electronic payments are posted, one to each of the vendors that received the distribution:
    - $2,000 electronic payment to the Engineer, and
    - $8,000 electronic payment to the Contractor.

The memo entries, receipt and electronic payments for pay request #1, must exactly offset each other; $10,000 receipt and $10,000 of total payments. The memo entries must be cleared on the next bank reconciliation as receipts and payments.

Keep grant and loan pass through postings up to date. Each time a pay request is submitted be aware you will be required to make the postings when the pay request is approved. Distributions from the local portion of cash would require you to prepare a warrant to the vendors for your local share of any pay requests.

Everyone involved in the project should understand how change orders will impact the budget and cash.

Your cash expenditures will be using up the cash balance of the fund from your transfer and advance. Make sure everyone involved in the project understands the significance of the change orders, how they affect funding and the two separate components of the budget.

CHANGE ORDERS

The only expenditures that should be posted to the park–capital project fund are the items that were budgeted for the project. If the board decides to add a gazebo to the park in the middle of the project, this would be an addition to the project and is sometimes called a change order.

We will use the gazebo addition as an example how a change order may affect the project budget for this park capital project fund.

The cost of the gazebo purchase, delivery, and assembly is $1,750. The currently budgeted matching cash, grant, or loan will not be paying any portion of this change order; it is an additional local expense. The gazebo was not part of the original plan for the park project so the cost was not included in a cash transfer from the general fund to the park capital project fund. An additional interfund transfer from general to park-capital project needs to be made.

This change requires additional legislation and certification of resources available and more legislation for supplemental appropriations. Sample steps to incorporate this change into the components of the operating budget:

- The board adopts supplemental appropriation legislation for an additional $1,750 in the general fund transfer out appropriation account. The fiscal officer enters the supplemental appropriation budget.
- The board adopts legislation authorizing an interfund transfer of $1,750 from the general fund to the park–capital project fund. The fiscal officer processes the transfer.
- The fiscal officer must request an amended certificate from the county auditor for this new revenue to the park-capital project fund and the fiscal officer enters a supplemental revenue budget of $1,750 to the transfer in revenue account.
- Once the new amended certificate is received the board can adopt supplemental appropriation legislation for $1,750 to the capital outlay appropriation account in the park-capital project fund. The fiscal officer enters the supplemental appropriation.
- The fiscal officer certifies the purchase order to the vendor, and once the gazebo has been installed, the invoice can be paid as approved by the board.

Some change orders reduce rather than increase the project costs and have the reverse effect on the finances of the project. In such cases, the governing board may have to reduce appropriations and request a reduced amended certificate at the end of the project.

FINALIZING THE PROJECT

When all of the project invoices have been paid, the grant and loan money fully distributed, and the initial advance has been repaid, there will be no money left in the fund. The financial records will show transfers and advances, all of the grant and loan money that was posted as revenue, all of the electronic payments that represent the expenditure of grant money, and the warrants that were issued for the matching share cash and loan.

In our example, the advance was for up-front costs that Grant 1 and Grant 2 reimbursed by the end of the project. The board must adopt legislation to repay that advance either in increments as received, or as one repayment. The UAN software keeps track of the initial advance and the remaining unpaid balance.

It is **very** important that you have not transferred in more cash than necessary because transfers are a permanent movement of cash to the capital project fund and any transferred balance remaining after the repayment of the advance would require additional legislation to transfer back into the general fund (in our example).

It is also **very** important that the advanced money is only spent on the items that are being reimbursed. Appropriations are not directly connected to the revenue or cash, **the fiscal officer** must understand the items that are using the advanced money and make sure reimbursements are received. Once the reimbursement occurs it is a good idea to repay the advance so that the cash is not used for other expenditures. Although the cash balance in the fund in this sample is made up of money that was advanced and transferred, the fiscal officer must make sure the cash is being used for the proper purposes or there will be a tangled mess at the end of the project.

You must understand the nature of transfers and advances to use them properly in a project. If the project ends with cash in the fund, the fiscal officer would need to review the sources of revenue and payments that were posted to determine where the error occurred and make a correction prior to year end so that the financial records for the project are accurate. Lower final bids or change orders that reduced the project costs might explain why there is money remaining.

This sample project is going to be completed within the same year. You may be dealing with projects that will start in one year and carry over into the next year. Budgeting a multi-year project can be very difficult. You should only budget the portion that you expect to take place within the current budget year. If this sample project started in October but would not be completed until June, the fiscal officer would need to work closely with the engineer to estimate the portions of the project for each year. The fiscal officer would budget the current year portion in this year's operating budget, then budget the balance of the project in the next year. Many variables in weather, contractor availability, and delays for decisions regarding change orders may require the first year operating budget to be amended before year end. When a project is going to cross years, the entity should **never** budget the entire project in the first year and carry purchase orders into the new year. Often in a large project, the contractor or engineer may change before the project is completed and new vendors take their place. **Carryover purchase orders cannot be amended to change the vendor name.**

A common error in a multi-year project is to budget the entire project in the first year and encumber all the appropriations on a super blanket certificate. Blanket Certificates of any type (super or regular) can be carried over to the new fiscal year, but **only** to pay for items that were purchased or work that was performed in the prior year. You cannot continue to charge against the blanket certificates for work performed in the second year of the project. The carryover encumbrance is **only** for the work or materials that were truly encumbered in the first year but will be paid when those invoices are received in the new year. The resources available for appropriation for each fiscal year should reflect the **resources available in that year,** not the resources available throughout the multi-year project.

The exception is when money, perhaps the loan or transfer in of local cash, is entirely distributed to the entity in the first year, but spent as the project progresses. The amounts that are truly received would be included in the resources available in the first year but might not be fully appropriated in the first year. The grants, loans, and transfers should be accurately estimated for the amended certificate for each year. The fiscal officer must do their best working with the engineer and others involved in the project to estimate current year resources and appropriations. The rest of the project will be budgeted in the next year.

CONCLUSION

In this chapter you learned about:

- Debt Ceiling and incorporating new debt into both components of the operating budget.
- Debt repayment from principal and interest appropriation accounts.
- New projects and how they are incorporated into the budget components.
- How directly distributed funding is posted through your books.