



**STATE OF OHIO
FINANCIAL REPORTING APPROACH —
INVESTMENT EARNINGS DISTRIBUTION**

A. OAKS Fund 6080: Investment Earnings Redistribution

For the allocation of investment earnings on deposit in Fund 6080, as of June 30, the Office of Budget and Management (OBM) determines the average daily cash balance for each fund authorized to receive earnings on the State’s investments, as of June 30. The average daily cash balance calculation is based on cash balances reported on the Ohio Administrative Knowledge System (OAKS) from June 29 (the day following the last quarterly distribution of the fiscal year) through June 30.

For each OAKS fund entitled by law to receive investment earnings from the State’s investment pool, OBM calculates the average daily cash balance as a percentage of the total average daily cash balance of all funds. The funds entitled to receive investment earnings are listed on the ADB_INTEREST_ALLOC tree. This tree identifies the funds that receive interest and which funds earn interest for the General Fund. The percentage determined for each OAKS fund is multiplied by Fund 6080’s cash equity balance, as reported on the OAKS, as of June 30, to calculate each OAKS fund’s share of the investment earnings on deposit in Fund 6080, as of year-end.

The State reports the amount due each OAKS fund from Fund 6080 after applying this allocation method as an increase in the “Cash Equity with Treasurer” account with a corresponding increase to revenue as follows:

To record undistributed investment earnings on deposit in Fund 6080, as of June 30:

| | DR. | CR. |
|--|-------|-------|
| Cash Equity with Treasurer | \$XXX | |
| Investment Income (Earnings on Deposit in Fund 6080) | | \$XXX |

For the governmental funds, the total amount of the year-end interest revenue adjustment posted in the Modified Accrual Ledger (i.e., on the modified accrual basis-fund financial statements) and Full Accrual Ledger (i.e., on the full accrual basis-government-wide financial statements) is the same using the calculation method just discussed. However, OBM posts adjusting journal entries to report investment income in the Modified Accrual Ledger at the fund level while adjusting journal entries in the Full Accrual Ledger are posted according to function and the appropriate program category (i.e., operating grants, contributions and restricted investment income/(loss); capital grants, contributions and restricted investment income/(loss)), or general revenue (i.e., unrestricted investment income). OBM assigns functions to an individual fund on the basis of the state agency to which the respective fund is assigned within the OAKS.

With regard to investment earnings included in the *operating grants, contributions and restricted investment income/(loss)* category, the Ohio Revised Code (ORC) identifies the State’s funds to which investment earnings are legally restricted; statutory language calls for the crediting of investment earnings to specific funds that account for programs for which the investment earnings must be used. This language is often found in the ORC sections that establish, create, or authorize state funds.

Also, certain funds that account for federal programs covered under the State’s agreement with the U.S. Treasury, as required under the Cash Management Improvement Act (CMIA), must be credited with investment earnings. Quarterly, OBM credits the federal funds their



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respective shares of earnings from Fund 6080, then the earnings are immediately transferred from each federal fund to Fund 4P80: Cash Management Improvement. From Fund 4P80, the State annually reimburses the federal government's share of the investment earnings on the federal funds, as calculated by OBM in accordance with the terms of the CMIA agreement, to the U.S. Treasury.

For classification under the *capital grants, contributions and restricted investment income/(loss)* category, investment earnings that are legally restricted for capital purposes in the capital projects funds are included in this category.

Investment earnings accruing to the General Revenue Fund, an unrestricted budgetary fund, are reported as general revenues-unrestricted investment earnings.

If the amount of Fund 6080's cash equity balance at year-end is determined, on the basis of professional judgment, not to be a material balance for the State, then rather than distribute the foregoing year-end revenue accrual to each fund that is designated by law to receive interest, OBM's financial reporting staff will only post the following adjustments:

- An increase to the cash equity balance and investment income revenue account allocable to the General Fund and any other select funds, as may be deemed appropriate on the basis of materiality, for the fund financial statements. This adjustment will be made by posting interest at the combining fund level to the fund with the largest cash balance within the combining fund, and
- An increase to the cash equity balance for governmental activities, business-type activities and component units in the government-wide financial statements with the associated revenue allocated among 1) the general revenue-unrestricted investment earnings account, 2) the operating grants, contributions and restricted income account applicable to the appropriate program function for the share accruing to any other select funds, as may be deemed appropriate on the basis of materiality, and 3) the operating grants, contributions and restricted investment income account in the general government function for the residual amount of Fund 6080's ending cash balance.

When this method is used there is an exception to the calculation. A portion of the cash balance in Fund 8710 (Lottery - Deferred Prize Trust) is excluded and a portion is allocated interest. The Structured Investments of Lottery earns interest directly on its cash balance so this is excluded from the allocation method. The remaining OAKS cash balance earns interest from the allocation method. The amount allocated interest is the difference between the OAKS cash balance and the Structured Investment balance from the Treasurer of State's Daily Ledger Report.



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B. Interest Receivable

For the allocation of interest receivable related to investments held in the state treasury's investment pool, as of June 30, OBM multiplies the same percentages that are calculated for the Fund 6080 year-end distribution (as just described in *Section A. Investment Earnings Redistribution*) by the year-end interest receivable balance that is reported by the Treasurer of State's Office. Through the annual deposits and investments reporting package the Treasurer's Office completes, OBM obtains information from the Treasurer that allows it to calculate accrued interest revenue on a modified accrual and on a full accrual basis.

The State reports interest receivable computed for each OAKS fund under the "Other Receivable" account on the statement of net assets or balance sheet, as the case may be. For the governmental funds financial statements, the interest revenue accrual is limited to the amount that is scheduled to be received within the "availability" period (i.e., 60 days within year-end); the portion of the receivable not collected during the "availability" period is reported as deferred revenue. OBM posts the interest revenue accruals determined on the modified accrual basis in the Modified Accrual Ledger at the fund level, while interest revenue accruals determined on the full accrual basis are posted in the Full Accrual Ledger according to function.

If the amount of the interest receivable balance at year-end is determined, on the basis of professional judgment, not to be a material balance for the State, then rather than distribute the foregoing year-end revenue accrual to each fund that is designated by law to receive interest, OBM's financial reporting staff will only post the following adjustments:

- An increase to the interest receivable balance and to the investment income revenue account and deferred revenue balance (for the portion of the receivable not received during the 60-day availability period) in the General Fund and any other select funds, as may be deemed appropriate on the basis of materiality, for the fund financial statements. This adjustment will be made by posting interest receivable at the combining fund level to the fund with the largest cash balance within the combining fund, and
- An increase to the interest receivable balance for governmental activities, business-type activities and component units in the government-wide financial statements with the associated revenue allocated among 1) the general revenue-unrestricted investment earnings account, 2) the operating grants, contributions and restricted income account applicable to the appropriate program function for the share accruing to any other select funds, as may be deemed appropriate on the basis of materiality, and 3) the operating grants, contributions and restricted investment income account in the general government function for the residual amount of the interest receivable balance.



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C. GASB 31 and the Treasurer of State’s Cash and Investment Pool

In the accounting for its investments relative to the Treasurer of State’s cash and investment pool, the State applies the requirements of Governmental Accounting Standards Board Statement No. 31 (GASB 31), *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*.

In conformity with GASB 31, the State reports its investments at fair value.

In the OAKS, OBM reports cash balances accounted for under account number “101000” as “Cash Equity with Treasurer.” This asset account represents each state-appropriated fund’s equity in the Treasurer of State’s cash and investment pool, which is reported at cost.

Because the valuation of the “Cash Equity with Treasurer” account varies from fair value, unrealized gains and losses must be recognized at year-end. To accomplish this, the following journal entries, as applicable, should be made for financial reporting purposes at year-end.

To record an unrealized gain on the State’s cash and investment pool:

| | | |
|-------------------------------------|------------|------------|
| | <u>DR.</u> | <u>CR.</u> |
| Cash Equity with Treasurer | \$XXX | |
| Investment Income (Unrealized Gain) | | \$XXX |

To record an unrealized loss on the State’s cash and investment pool:

| | | |
|-------------------------------------|------------|------------|
| | <u>DR.</u> | <u>CR.</u> |
| Investment Income (Unrealized Loss) | \$XXX | |
| Cash Equity with Treasurer | | \$XXX |

For the State’s cash and investment pool, OBM obtains the information necessary from the Treasurer of State’s Office through the annual deposits and investments reporting package to determine whether the pool has a net unrealized gain or loss at year-end. OBM allocates the net unrealized gain/loss amount among all funds that receive investment earnings from Fund 6080: Investment Earnings Redistribution. The allocation is calculated on the basis of each fund’s percentage of total investment earnings for the year multiplied by the unrealized gain/loss amount, as of the June 30.

The total amount of the year-end investment income adjustment posted in the Modified Accrual Ledger and the Full Accrual Ledger is the same using the calculation method discussed above. OBM posts the modified accrual journal entries at the fund level while OBM posts the full accrual according to function. OBM assigns functions to individual funds on the basis of the agency to which the respective fund is assigned on OAKS.



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If the amount of the unrealized gain or loss at year-end is determined, on the basis of professional judgment, not to be a material balance for the State, then rather than distribute the foregoing year-end revenue accrual to each fund that is designated by law to receive interest, OBM's financial reporting staff will only post the following adjustments:

- An increase (for a net gain) or decrease (for a net loss) to the cash equity balance with a corresponding increase (for a net gain)/decrease (for a net loss) to the investment income revenue account in the General Fund and any other select funds, as may be deemed appropriate on the basis of materiality, for the fund financial statements. This adjustment will be made by posting the unrealized gain/loss at the combining fund level to the fund with the largest cash balance within the combining fund, and
- An increase (for a net gain) or decrease (for a net loss) to the cash equity balance for governmental activities, business-type activities and component units in the government-wide financial statements with the associated increase (for a net gain) or decrease (for a net loss) allocated among 1) the general revenue-unrestricted investment earnings account, 2) the operating grants, contributions and restricted income account applicable to the appropriate program function for the share accruing to any other select funds, as may be deemed appropriate on the basis of materiality, and 3) the operating grants, contributions and restricted investment income account in the general government function for the residual amount of the gain/loss balance.

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