AUDITOR OF STATE BULLETIN 96-027
NOVEMBER 12, 1996

TO: ALL SCHOOL DISTRICT TREASURERS
ALL EDUCATIONAL SERVICE CENTER TREASURERS
ALL INDEPENDENT PUBLIC ACCOUNTANTS

SUBJECT: SCHOOL GAAP ISSUES

The purpose of this bulletin is to provide information to school districts that may be useful in the preparation of their GAAP financial statements for the 1996 fiscal year.

<u>New Pronouncements</u>

GASB Statement 24, "Accounting and Financial Reporting for Certain Grants and Other Financial Assistance", is effective for this year. This statement provides guidance for pass-through grants. Pass-through grants are grants that are received by a primary recipient and transferred to or "spent on behalf of" a secondary recipient. The phrase "spent on behalf of" is not defined or discussed in the Statement. The following are indications that money is being spent on behalf of a secondary recipient:

1. There is an application process between the primary recipient and the secondary recipient.

2. Expenditure of the grant results in a fixed asset being recorded on the books of the secondary recipient.

3. The board of the secondary recipient exercises control over the expenditure of its portion of the grant (budgeting, approving invoices etc.).

4. There is an agreement about the allocation and use of grant proceeds among the secondary recipients through participation on the board of the primary recipient or through input prior to requesting the grant.

5. The grant document specifically identifies the secondary recipients.

A school district's grant activity must be reviewed from both perspectives: first, to determine if the school district is acting as a primary recipient; and second, to determine if the school district is receiving the benefit of a grant as a secondary recipient.

Primary Recipients: Pass-through grants are reported in an agency fund of the primary recipient when the only role of the primary recipient is to act as a cash conduit. When the primary recipient has a financial or administrative role in the grant, the grant must be reported as revenues and expenditures or expenses in a governmental, proprietary or trust fund.

A primary recipient has administrative involvement when it monitors secondary recipients for compliance, determines eligible secondary recipients or has the ability to exercise discretion in how the grant is allocated. A secondary recipient has financial involvement when it finances program costs because of a grantor imposed matching requirement or is liable for disallowed costs. These examples are merely representative of the type of involvement that would be considered administrative or financial. They are not intended to be all-inclusive.

In reviewing school activities, the only fund that generally requires reclassification under this new statement is auxiliary services. School districts receiving auxiliary services money from the State serve as the primary recipient and have administrative responsibilities with respect to the grant. For GAAP reporting purposes, auxiliary services should be reported as a special revenue fund. For budgetary reporting purposes, the auxiliary services fund may continue to be classified as an agency fund; if the fund is classified as a special revenue fund for GAAP and as an agency fund for budgetary reporting, a reconciling account will need to be added to the budget to GAAP reconciliation in the notes to the financial statements. It is unlikely that the reclassification of the auxiliary services fund for GAAP reporting purposes will be material to the financial statements. The Auditor of State's Office will reclassify auxiliary services as a special revenue fund in Revision 13 of USAS.

We have found several other school district grants that in some districts may properly be classified as pass-through grants. One example is Eisenhower grants. These moneys are often received by an educational service center for all local school districts within the county. Although the money may not be transferred to the local school districts, it is often "spent on behalf of" the local district.

If the primary recipient is reporting the grant in an operating fund and the secondary recipient is another government, the Auditor of State's Office recommends that grant expenditures by the primary recipient be reported as intergovernmental. The secondary recipient would report grant revenue and operating expenditures. This approach eliminates reporting operating expenditures for the same grant twice. If the secondary recipient is not another government, report the expenditures as operating.

Secondary recipients: Secondary recipients of pass-through grants may receive cash or the money may have been spent on their behalf by the primary recipient. As indicated above, for GAAP reporting purposes, a secondary recipient should report revenue and operating expenditures even if it does not receive the cash. A review of grant programs should be conducted to identify potential flow-through grants. Pay particular attention to grants received by your county educational service center to make sure they are properly classified.

The State Auditor's Office is not able to specifically identify grants that are to be treated as pass-through grants because grants are not handled uniformly throughout the State.

GASB Statement 27, “Financial Reporting for Defined Benefit Pension Plans”, is not yet effective. It may, however, be early implemented. The effect of implementing this statement is to significantly reduce the length of the note disclosure for pension plans.

Pension Obligations

Discussion with the Governmental Accounting Standards Board (GASB) has indicated that year-end pension obligations payable from governmental funds that will not be paid using current available financial resources should be reported in the general long-term debt account group(gltdag). In prior years, many school districts have reported this entire obligation as a fund liability. It is recommended that as school districts implement the revised disclosure requirements of Statement 27 the approach used to determine the presentation of this obligation be reviewed to insure compliance with the guidance from GASB.

While there are many acceptable definitions of currently available financial resources, the Auditor of State recommends the following approach: assume that the portion of the pension obligation paid within the available period is paid using current available financial resources and that the portion paid outside the available period is not. While this is not the only acceptable approach, it has the advantage of being easy to apply.

At June 30, school districts that pay retirement through deductions from foundation payments owe an obligation equal to two months deductions to STRS and equal to six months deductions to SERS. Most school districts in Ohio recognize a two month available period. In order to implement the recommended approach, those school districts would continue to present the liability to STRS as a fund liability; however, only two months of the liability to SERS would continue to be presented as a fund liability. The remainder would be presented in the general long-term debt account group (gltdag). This liability may be reported as “Due to Other Governments” or you may create a separate account such as “Pension Obligation Payable”. If a separate account is created, it should be used to report both the fund liability and the obligation presented in the gltdag. The surcharge payable to SERS would also be presented in the gltdag since it will not be paid during the available period.

School districts receiving assistance from the Auditor of State’s Office in the preparation of their GAAP statements are using this approach as well as implementing the provisions of Statement 27. A sample note to the financial statements reflecting this approach appears at the end of this Bulletin.

If the method used to present the pension obligation changes as you implement the provisions of Statement 27, last year’s reported excess of revenues and other financing sources over (under) expenditures and other financing uses and last year’s reported fund balance figures may need to be restated. If the amounts are not material, they may simply be reported in this year’s expenditures. If the amounts are material, the restatement would be presented in the notes to the financial statements. A sample follows.

> In prior years, the School District reported the entire unpaid contractually required pension contribution as a fund liability. This year, the portion of the pension payments which are not paid using current available financial resources are being reported in the

general long-term debt account group. The effect of this change on the excess of revenues and other financing sources over (under) expenditures and other uses as previously reported for the year ended June 30, 1995 is as follows:

	General	Special Revenue
Excess as previously reported	$XX,XXX	$XX,XXX
Restatement for pension obligation	X,XXX	X,XXX
Restated amounts for the year ended June 30, 1995	$XX,XXX	$XX,XXX

The change in reporting the pension obligation had the following effects on fund balance as they were previously reported as of June 30, 1995.

	General	Special Revenue
Fund Balance as previously reported	$XX,XXX	$XX,XXX
Restatement of pension obligation	X,XXX	X,XXX
Restated Balances as of July 1, 1995	$XX,XXX	$XX,XXX

The presentation of the liability for that portion of the pension obligation payable from proprietary funds will not change. The approach you select to define current available financial statements should be disclosed in the notes to the financial statements.

Property Tax Reserve

Accrued property tax revenue that represents the amount available as an advance at year-end against the August real property tax settlement may be reported as a reserve of fund balance if the board of education did not pass a resolution authorizing the appropriation of this money for the 95/96 fiscal year.

Notes to the Financial Statements

A sample of a complete set of notes to the financial statements for school districts is available on the SSDT home page at http://ssdt.oecn.ohio.gov/ssdt. Follow the links to the “downloadable” files and you will see files from the State Auditor’s Office. Please recognize that these notes should not be used without modifications that relate them to your specific school district.

Provisions of this bulletin need not be applied to items which are immaterial to the financial statements.

The Auditor's Office is aware that the accounting information presented in this bulletin is of a summary nature and may raise additional questions about applying this information to your district. Questions are welcome and should be directed to the Local Government Services Division at (800) 345-2519 or the Audit Division at (800) 282-0370. Any legal questions raised by this bulletin should be directed to your legal counsel.

NOTE XX - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The Everybody School District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer public employee retirement system administered by the School Employees Retirement Board. SERS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required supplementary information for SERS. The report may be obtained by writing to the School Employees Retirement System, 45 North Fourth Street, Columbus, Ohio 43215-3634.

Plan members are required to contribute 9 percent of their annual covered salary and the Everybody School District is required to contribute 14 percent; XX.XX percent was the portion to fund pension obligations. The contribution rates are not determined actuarially, but are established by SERS's
Retirement Board within the rates allowed by State statute. The adequacy of the contribution rates is determined annually. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 1996, 1995, and 1994 were $XX,XXX, $XX,XXX, and $XX,XXX, respectively; XX.X percent has been contributed for fiscal year 1996 and 100 percent for the fiscal years 1995 and 1994. $XXX,XXX representing the unpaid contribution for fiscal year 1996, is recorded as a liability within the respective funds and the general long-term debt account group.

B. State Teachers Retirement System

The Everybody School District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information for STRS. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771.

Plan members are required to contribute 9.3 percent of their annual covered salary and the Everybody School District is required to contribute 14 percent; XX.XX percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The School District's required contributions for pension obligations to STRS for the fiscal years ended June 30, 1996, 1995, and 1994 were $XXX,XXX, $XXX,XXX, and $XXX,XXX, respectively; XX.X percent has been contributed for fiscal year 1996 and 100 percent for the fiscal years 1995 and 1994. $XXX,XXX representing the unpaid contribution for fiscal year 1996, is recorded as a liability within the respective funds.