



**JIM PETRO**  
**AUDITOR OF STATE**  
STATE OF OHIO

Date: March 17, 1997  
Bulletin 97-006

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## AUDITOR OF STATE BULLETIN

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TO: ALL COUNTY AUDITORS  
ALL CITY AUDITORS AND FINANCE DIRECTORS  
ALL INDEPENDENT PUBLIC ACCOUNTANTS

SUBJECT: COUNTY AND CITY GAAP ISSUES

The purpose of this bulletin is to provide information to cities and counties for use in the preparation of their GAAP financial statements for 1996. The bulletin responds to the more frequently asked questions and identifies recent changes in GAAP. When an issue has more than one acceptable accounting treatment, the options have been identified. The accounting guidelines presented in this bulletin need not be applied to amounts that are considered immaterial.

### New Pronouncements from GASB

**GASB Statement No. 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 government and transferred to or spent on behalf of a secondary recipient. Pass-through grants are reported in an agency fund when the only role of the primary recipient is to act as a cash conduit. When the primary government 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 primary recipient has financial involvement if it finances program costs 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.

If the secondary recipient is another government, the Office of Auditor of State recommends that grant expenditures by the primary government be reported as intergovernmental. The secondary recipient would report the grant revenue and operating expenditures. This approach eliminates reporting operating expenditures for the same grant twice.

Examples of pass-through grants include CDBG money that is spent by a county to benefit other subdivisions or a city highway project funded through ODOT that includes federal dollars.



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It may be difficult to determine if money is being "spent on behalf of" a secondary recipient. The phrase "spent on behalf of" is not defined or discussed in the Statement in relation to pass-through grants. 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 an asset 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.

The Office of Auditor of State is not in a position to specifically identify grants that are to be treated as pass-through grants because grants are not handled uniformly throughout the State.

The Statement also addresses proper accounting treatment and note disclosure for on-behalf payments for salaries and fringe benefits. On-behalf payments are direct payments by one entity (the paying entity) to a third-party recipient for the employees of another, legally separate entity (the employer entity). An example provided in the Statement of an on-behalf payment is the state government making pension contributions for schoolteachers. Employer governments must recognize revenues and expenditures or expenses for on-behalf payments. Governments that make on-behalf payments for salaries or fringe benefits should classify these payments in the same manner that is used to classify similar cash grants to other entities.

**GASB Statement No. 27**, "Accounting for Pensions By State and Local Governmental Employers," 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. Entities may be forced to early implement Statement 27 because a current measure of the pension benefit obligation that is required to be disclosed under Statement No. 5 is no longer available from the pension system. (See GASB Technical Bulletin 96-1.)



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**GASB Statement No. 28**, "Accounting and Financial Reporting for Securities Lending Transactions" is effective for 1996. S.B. 81, the new investment bill, permits counties to enter into securities lending transactions. A county that participates in security lending transactions should consult this Statement for guidance.

**GASB Statement No. 29**, "The Use of Not-for-Profit Accounting and Financial Reporting Principles by Governmental Entities" establishes guidelines for governmental entities that use not-for-profit accounting and that have been applying SOP 78-10 or following the AICPA audit guide Audits of Voluntary Health and Welfare Organizations. These entities may now follow either the AICPA not-for-profit model or the governmental model as these models are defined in paragraphs 5.a, 5.b and 6 of the Statement. This Statement is effective for 1996.

The Statement also addressed an issue regarding proprietary activities that apply paragraph 7 of Statement No. 20. This paragraph allows proprietary activities (proprietary funds and governmental entities that use proprietary fund accounting) to apply all FASB statements and interpretations issued after November 30, 1989, except for those that conflict with or contradict GASB pronouncements. The question was whether the intent of paragraph 7 was for proprietary activities to apply only the FASB pronouncements that related to business enterprises or whether they should also apply those pronouncements whose provisions are limited to not-for-profit organizations. Statement No. 29 clarifies the application of paragraph 7 of Statement No. 20 by indicating that these proprietary activities should not apply FASB pronouncements whose application is limited to not-for-profit organizations, i.e. FASB Statements 116 and 117.

The Office of Auditor of State has previously stated and continues to hold the position that not-for-profit workshops associated with county MRDD boards are to be reported as component units of the county and should prepare financial statements that comply with GASB Statement 29.

**GASB Interpretation No. 2**, "Disclosure of Conduit Debt Obligations" is effective for 1996. Conduit debt obligations are defined by the Interpretation as limited obligation revenue bonds, certificates of participation, or similar debt instruments issued by a state or local government for the purpose of providing capital financing for a specific third party that is not a part of the issuer's financial reporting entity. The key factor in identifying conduit debt obligations is that the city or county has no obligation for the debt beyond the resources provided by a lease or loan with the third party on whose behalf the debt was issued. A city or county that has issued conduit debt must disclose in the notes to the financial statements a general description of conduit debt obligations, the aggregate amount of all conduit debt obligations outstanding as of the balance sheet date, and a clear indication that the government has no obligation for the debt beyond



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the resources provided by related leases or loans.

If the aggregate outstanding amount cannot reasonably be estimated, the original issue amount may be reported for debt issued prior to the implementation of this Interpretation. In this case two amounts would be reported: conduit debt for which the original issue amount is being reported and debt for which the current outstanding balance is being reported. The government is required to track and report outstanding balances on debt issued after the implementation date of this Statement.

**GASB Interpretation No. 3, "Financial Reporting for Reverse Repurchase Agreements"** is effective for 1996. This Statement establishes guidance for governments that pool money from several funds for investment purposes and the pool rather than the fund invests in reverse repurchase agreements. The assets and liabilities arising from the investments are to be reported on the balance sheet in the participating funds that have the risk of loss on the assets. Income arising from these agreements should also be reported in the participating funds. If legal provisions require a different allocation, the income should be reported in the recipient fund. Governments must disclose whether the maturities of the investments made with the proceeds of reverse repurchase agreements generally are matched to the maturities of the agreements, as well as the extent of the matching on the balance sheet date.

Only counties had statutory authority to participate in reverse repurchase agreements and that authority was revoked in S.B. 81, effective September 27, 1996. Cities may invest in reverse repurchase agreements if permitted by charter.

**GASB Interpretation No. 4, "Accounting and Financial Reporting for Contributions to Public Entity Risk Pools"** is effective for periods beginning after June 15, 1996. Early application is encouraged. The accounting treatment for capitalization contributions to risk pools depends on whether there is transfer of risk. Capitalization contributions made by governments to public entity risk pools with transfer of risk should be reported as deposits if a return of the contributions is probable upon dissolution of, or the approved withdrawal from, the pool. In governmental funds, fund balance would be reserved to indicate the amount is not available for appropriation. Otherwise the contributions should be reported as prepaid insurance and allocated over future periods, or, alternatively in governmental funds, as expenditures in the period made.

Capitalization contributions made by governments to public entity risk pools without transfer of risk should be reported as deposits or reductions of claims liabilities.

The Interpretation also makes it clear that a government should not consider its capitalization contributions to, or participation in, a public entity risk pool (with or without



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transfer of risk) to be an equity interest in a joint venture.

### Pension Obligations

Discussion with the Governmental Accounting Standards Board technical assistance department 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 obligations account group. This approach matches what is done for compensated absences, claims and judgments, special termination payments and liabilities related to landfill closure and postclosure costs.

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. This approach has the advantage of being easy to apply. The approach you select to define current available financial resources should be disclosed in the notes to the financial statements and should be consistently applied to the obligations listed in the preceding paragraph.

### Uncollateralized Deposits

The Financial Institutions Reform and Recovery Act established several requirements that must be satisfied if a security agreement designed to collateralize deposits is to be valid against the Federal Deposit Insurance Corporation. In the event of receivership, failure to meet the requirements would result in the depositor being classified as an unsecured creditor.

When classifying deposits for note disclosure under GASB Statement No. 3, the Office of Auditor of State routinely checks with the financial institution holding the government's deposits to see if the requirements of the Act have been satisfied. If not, the amount of the deposits not insured are classified as uncollateralized. This approach was discussed in the GASB Action Report of April 1993 and is recommended for all Ohio local governments.

### Libraries

Most of the boards of trustees of Ohio libraries are appointed by the elected board of another government. The appointing authority also serves in a ministerial capacity as the taxing authority of the library. A question has recently arisen as to the proper classi-



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fication of libraries under Statement No. 14. The Office of Auditor of State classifies libraries as related organizations of the appointing authority but recognizes that the application of Statement No. 14 can be very subjective. For this reason, the Office of Auditor of State will not object if the appointing authority and the related library agree to present the library as a component unit of the appointing government. This change will result in a change in the reporting entity and is neither required nor encouraged by the Office of Auditor of State.

### Auditor of State Assistance

The Office of Auditor of State 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 situation. 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.