

AUDITOR OF STATE BULLETIN 2000-008

MAY 2, 2000

TO: ALL COUNTY AUDITORS
ALL CITY AUDITORS, FINANCE DIRECTORS & TREASURERS
ALL VILLAGE FISCAL OFFICERS
ALL SCHOOL DISTRICT TREASURERS
ALL EDUCATIONAL SERVICE CENTER TREASURERS
ALL TOWNSHIP CLERKS
ALL LIBRARY CLERKS/TREASURERS
ALL JOINT FIRE DISTRICT FISCAL OFFICERS
ALL FIRE AND AMBULANCE DISTRICT FISCAL OFFICERS
ALL JOINT RECREATION DISTRICT FISCAL OFFICERS
ALL PARK DISTRICTS
ALL JOINT ADAMH FISCAL OFFICERS
ALL UNION CEMETERY DISTRICT FISCAL OFFICERS
ALL PORT AUTHORITY FISCAL OFFICERS
ALL AIRPORT AUTHORITY FISCAL OFFICERS
ALL WATER AND SEWER DISTRICT FISCAL OFFICERS
ALL TOWNSHIP WASTE DISPOSAL DISTRICT FISCAL OFFICERS
ALL INDEPENDENT PUBLIC ACCOUNTANTS

SUBJECT: ACCOUNTING FOR CASH BASIS LOCAL GOVERNMENTS' PARTICIPATION
IN ON-BEHALF-OF GRANTS OR IMPROVEMENT PROJECTS¹

Many local governments are the beneficiaries of programs commonly carried out or administered by other local governments or the State. Many of these grant programs or capital improvement projects (hereafter referred to as "program") are administered such that the benefitting governments do not receive cash or make disbursements as part of the program (for example, certain Issue II or CDBG programs). This bulletin describes the proper accounting treatment for these "on-behalf-of" programs.

Cash Accounting

When a local government enters into an on-behalf-of program agreement with another local government or the State (or the federal government, if applicable), whereby the local government or its residents are the beneficiaries under the agreement, the cash value benefit of the program received under the agreement should be recorded as memorandum receipts and disbursements in the year on-behalf-of disbursements are made.

This accounting treatment should only be applied when a local government or its residents are the recipients of benefits as evidenced by an agreement or an approved program application (This might include a consortium application where a group of local governments enter into an agreement as a consortium and the consortium is not a legally separate entity.²) A local government should not record any program transactions if the government has not entered into an agreement or has not been approved for program participation as a result of its request for participation. That is, transactions should not be recorded if the local government benefits solely as a consequence of a program carried out or

¹ Though this Bulletin is intended primarily for cash basis local governments, local governments reporting under Generally Accepted Accounting Principles may find this guidance helpful when considering the application of Statement No. 24 of the Governmental Accounting Standards Board. ↩

² For purposes of this Bulletin, the consortium fiscal agent may use any reasonable method to allocate receipt and disbursement activity of the consortium among consortium participants. However, be aware that a particular grant may provide specific allocations among consortium participants in which case those allocations should be used.

There have been some amendments to GASB 24. The current requirements are codified in Section N 50.

administered by another party.

For example, suppose the Ohio Department of Transportation administers a program which widens and repaves a five-mile section of state highway located within the Village of XYZ's boundaries. The Village has not applied for funding or entered into an agreement related to the project³. However, the improvements benefit the Village by providing increased access for tourists. In this case the Village would not record any receipts or disbursements related to the project.

Suppose, however, that the Village submits an application to XYZ County for participation in the County's CDBG-funded annual improvement project. The County approves the Village's application for a sidewalk replacement project, and the County advertises for bids, awards the contracts, and pays the vendors directly. In this case, even though the Village did not receive any payment or make any disbursements related to the project, the Village should record receipts and disbursements for the amount of the project payments made on-behalf-of the Village.

Note: When a local government makes on-behalf-of program disbursements for the benefit of another local government, the Auditor of State recommends that the disbursements be recorded as intergovernmental. This treatment prevents two governments from reporting operating or capital disbursements for the same grant. Also, GASB Statement No. 24 provides guidance regarding the fund type to be used when a government receives financial assistance to spend on-behalf-of a secondary recipient. In general, a government receiving such assistance should record the related receipts and disbursements in a governmental fund (though a proprietary or trust fund might also be appropriate). However, if the government has no administrative responsibility the financial activity should be recorded in an agency fund (This would be infrequent.)

GASB 84 eliminated agency funds. Most often existing agency funds will become custodial fund, however, GASB 84 criteria should be evaluated for proper fund classification. Unlike agency funds, GASB 84 requires financial statements be presented to report custodial fund activity. See AOS Bulletin 2020-003

Budgetary Accounting (for entities subject to Ohio Revised Code Chapter 5705)

The legislative authority should approve, by resolution, the grant or project application and must establish any fund(s) necessary to meet the grant or project objectives. Auditor of State permission for fund establishment is not necessary, although it may be necessary to obtain a fund number from the Auditor of State if one has not been previously assigned.

Once the grant is awarded or the application is approved, the fiscal officer must obtain an official certificate of estimated resources or an amended certificate of estimated resources for all or part of the grant or project, based on the expected cash disbursements to be made on the local government's behalf in the current fiscal year. Any on-behalf-of payments expected to be made in the next year should be reflected on the next year's certificate⁴.

The fiscal officer shall record the appropriations in accordance with the terms and conditions of the grant or project agreement. In addition, prior to recording the appropriations, Ohio Rev. Code § 5705.40 requires the legislative authority to pass a resolution amending its appropriation measure.

If the grant or project will be expended over a period longer than the current fiscal year, only the amount expected to be obligated during the current fiscal year should be recorded as appropriated. The remainder of the project should be appropriated in the subsequent year(s)⁵.

³ Some local governments do participate in certain ODOT projects as part of a formal agreement, with matching requirements.

⁴ However, if the local government, with the exception of a school district, has budgeted on a project length basis pursuant to Ohio Rev. Code § 9.34(B), the fiscal officer must obtain an official certificate of estimated resources for the entire project length fiscal period. If the project length basis is used, the local government would appropriate the entire project amount.

⁵ See footnote 4.

Other Matters

Local governments participating in on-behalf-of programs should review program documents and/or contact the awarding entity to determine the estimated and actual on-behalf-of disbursements for the fiscal year. These amounts should be used, respectively, for the budgetary and cash accounting treatment described above.

For federally funded programs, application of this accounting treatment will generally be an indication that the local government is a subrecipient of federal financial assistance, however, each agreement must be evaluated individually. When a local government has not applied for funding or entered into an agreement, as discussed in the ODOT example above, it will generally not be considered a subrecipient of federal financial assistance. When determining whether or not the local government is a subrecipient of federal financial assistance, the guidance provided by Office of Management and Budget (OMB) Circular A-133 should be considered⁶.

Township officials are compensated based on annual budgets. The application of this accounting treatment and the related budgetary accounting may alter the budget amounts on which officials' compensation is based (see Auditor of State Bulletin 99-008.)

If you have any questions regarding this matter, please contact your regional Auditor of State's Office.

Now included in
Uniform Guidance
§200.502

Now in §200.93

⁶ OMB Circular ~~A-133 section .205~~ (a) states in part, that the determination of when an award is expended should be based on when the activity related to the award occurs. This section further states, that generally, the activity pertains to events that require the non-Federal entity to comply with laws, regulations, and provisions of contracts or grant agreements. ~~A-133 Section .105~~ defines *Subrecipient* as a non-Federal entity that expends federal awards received from a pass-through entity to carry out a Federal program, but does not include an individual that is a beneficiary of such a program. ~~A-133 Section .105~~ defines *Federal Financial Assistance* to include assistance that non-Federal entities receive or administer in the form of grants, loans, loan guarantees, property, cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, and other assistance.

Under these sections, a local government should generally be considered a subrecipient when it receives cash or non-cash assistance under a federal program for which the local government has significant administrative or compliance responsibility.

Now in §200.40.