Betty Montgomery
Auditor of State

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TO:
County Auditors
City Finance Directors and Auditors
School District Treasurers
ESC Treasurers
Community School Finance Officers
Township Trustees and Clerks
Township Administrators
Village Clerks, Clerk-Treasurers, and Finance Directors
Village Administrators
Library Clerks, Treasurers, and Directors
Special Districts
County Family and Children First Councils
Law Libraries
Metropolitan Housing Authorities
Airport Authorities
Park Districts
Soil Water Conservation Districts
Water/Sewer Districts
Council of Governments
Hospitals
Governmental Insurance Pools
Community Development Corporations
Community Improvement Corporations
Convention & Visitor Bureaus
Transit Authorities
Port Authorities
Fire and Ambulance Districts
Ohio Watershed Conservancy Districts
Community Based Correctional Facilities
Agricultural Societies
Independent Public Accountants

FROM:
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SUBJECT: Required Fund Classifications for Non-GAAP Filers

Overview

As you are aware, Ohio law (Ohio Rev. Code § 117.38) requires that local public offices file their annual financial reports with the Auditor of State's Office (AOS). Ohio Rev. Code § 117.38 further states that the AOS may prescribe forms by rule or may issue guidelines, or both, for such reports.

While the AOS requires counties, cities, school districts, educational service centers, and community schools to file financial statements that conform to generally accepted accounting principles (GAAP), the AOS **does not require** other local governments to file their financial statements pursuant to GAAP. As authorized under Ohio Rev. Code § 117.38, however, the AOS has traditionally required all other local governments to prepare their annual reports using the same fund categories (governmental, proprietary, and fiduciary) and the same fund types (general, special revenue, etc.) as provided for in GAAP. These fund classifications have recently been changed. Therefore, those local governments that prepare non-GAAP, cash-basis financial statements will be required to reclassify their funds using these new classifications beginning January 1, 2006. [1] The first filing requirement for these entities will be 60 days after year-end.

Purpose of Reclassification

The AOS wants the underlying financial information that is used to prepare the financial statements to be classified the same way (i.e., comparable) for all governments, regardless of whether they prepare cash-basis statements, GASB 34 "look-alike" statements, or statements that conform to GAAP. In other words, all local governments will follow the same fund classification system under this requirement, which will prevent two similar governments with similar funds from reporting them differently on their financial statements. Thus, this requirement will provide a level of comparability in terms of fund types among similar governments, regardless of the basis used to prepare their annual financial statements.

Fund Changes

To assist local governments in understanding the changes caused by this fund reclassification, the following table compares fund types under the old classifications to the classifications provided for in the new guidelines.

[1] Those local governments that prepare GAAP or GASB 34 "look-alike" statements (pursuant to AOS Technical Bulletin 2005-002) already follow the fund classifications provided for in GAAP.

Funds Classifications

Old Classifications	New Classifications
Governmental Funds	
General Fund	General Fund
Special Revenue Funds	Special Revenue Funds
Debt Service Funds	Debt Service Funds
Capital Projects Funds	Capital Projects Funds
No Corresponding Fund Type	Permanent Funds
Proprietary Funds	
Enterprise Funds	Enterprise Funds
Internal Service Funds	Internal Service Funds
Fiduciary Funds	
Nonexpendable Trust Funds	*Fund Type Eliminated*
Expendable Trust Funds	*Fund Type Eliminated*
No Corresponding Fund Type	Private Purpose Trust Funds
Investment Trust Funds	Investment Trust Funds
Pension Trust Funds	Pension Trust Funds [2]
Agency Funds	Agency Funds

As evidenced in the table, most of the changes take place in the fiduciary fund category. Under the new classification system, fiduciary funds only report assets held in a trustee or agency capacity for others and therefore cannot be used to support the government's own programs. In other words, these funds should report resources held and administered by the reporting government when it is acting in a fiduciary capacity for individuals, private organizations, or other governments. Under the old classification system, fiduciary funds could include financial activity that benefits or supports the reporting government's own programs. However, the new guidelines restrict the use of fiduciary funds to reporting financial activity that relates to individuals, private organizations, or other governments.

Nonexpendable and Expendable Trust Funds[3]

Because activities of the reporting government's own programs may no longer be reported in a fiduciary fund, they must be reclassified as part of the governmental fund category. Thus, the following fiduciary fund types have been eliminated and their activities must now be accounted for in the following manner (**Note**: Definitions are provided to assist the government with the reclassification):

[2] Ohio governments whose employees are covered by a state-wide pension system (OPERS, Ohio Police and Fire Pension Fund etc.) do not have pension trust funds.

[3] Governments must maintain copies of trust agreements to document their obligation as trustee. However, we are aware that some trust agreements may be very old (e.g. cemetery endowments) and the government may no longer have a copy of the trust agreement. In these instances, the government may be able to obtain a copy from the probate court. If a government cannot obtain a trust document, it should consult with its legal counsel regarding the steps required to remediate the situation.

- *Nonexpendable Trust Fund*: Accounted for trusts that stipulated that only earnings, and not principal, could be spent by the government. In other words, nonexpendable trust funds functioned essentially as endowments.

  Under the new classification system, the nonexpendable trust fund must be reclassified as either a permanent fund or a private purpose trust fund. A government would report a permanent fund if it can spend the earnings on its own programs. This new fund type was created to account just for these types of contributions. Conversely, a government would report a private purpose trust fund, also a new fund type, if it can only spend the earnings on other individuals, organizations, or other governments.

- *Expendable Trust Fund*: Accounted for trusts where both principal and earnings on principal could have been spent for the trust's intended purpose.

  Under the new classification system, the expendable trust fund must be reclassified as either a special revenue fund or a private purpose trust fund. A government would report a special revenue fund if the government may spend the principal and earnings for its own programs. A government would report a private purpose trust fund if it can only spend the principal and earnings on other individuals, organizations, or other governments.

  For example, it is common for local governments to receive contributions or bequests for the upkeep and maintenance of a cemetery. Assuming cemetery upkeep and maintenance is a function of the government, the contribution would be accounted for within a special revenue fund if both the principal and the interest could be spent and a permanent fund if the terms of the bequest specified that only the interest could be spent. The fund classification becomes less clear if the bequest is intended to benefit one specific lot rather than the cemetery as a whole. In this situation the AOS recommends the use of a private purpose trust fund, since the use of the money is for the benefit of a specific individual, rather than a broader program of the government. If the local government maintains a fund that accounts for a combination of dollars, some of which are for the operation and maintenance of the cemetery as a whole and some of which are restricted to benefiting individual lots, the AOS recommends the use of a permanent fund.

  Similarly, libraries routinely have trust funds that account for contributions given for the benefit of the library and to support library programs. These contributions would also need to be reclassified as either special revenue or permanent funds. Again, the contribution would be accounted for within a special revenue fund if both the principal and the interest could be spent and a permanent fund if the terms of the bequest specify that only the interest could be spent.

Private Purpose Trust Funds

The new fund classification system creates a new type of fund within the fiduciary fund category. To reiterate, fiduciary funds report assets held in a trustee or agency capacity for individuals, private organizations, or other governments. Trust funds differ from agency funds generally by the existence of a legally enforceable trust agreement affecting the degree of management involvement and the length of time the government holds the assets. The specific purpose of this new fund type within the fiduciary fund category is as follows:

- *Private Purpose Trust Fund*: Accounts for trust arrangements under which principal and income from the trust may only be used for the benefit of those individuals, private organizations, or other governments.

Investment Trust Funds

An investment trust fund is established when a government's fiscal officer also serves as fiscal officer for other separate governments, pools and invests the governments' resources, and allocates the interest earnings back to the governments. The investment trust fund accounts for the external portion of the investment pool. For example, a county auditor may also serve as the fiscal officer for a metropolitan park district. The fiscal officer pools county and park district money for investing and allocates part of the interest to the park district. The portion of the pool that belongs to the park district is the external portion of the pool that would be reported in the county's investment trust fund, provided the park district is entitled to receive investment earnings on its deposits.

AOS Assistance

To facilitate the reclassification, the AOS will provide training to those local governments affected by this requirement prior to January 1, 2006. Furthermore, UAN users will be automatically prompted by the system to reclassify the funds as they make the transition from 2005 to 2006. The UAN system will automatically carryover budgetary information and year-end closing information to the appropriate fund as it has been reclassified by the user. Further, the annual report forms provided by the AOS will be modified for 2006 to reflect the new fund classifications. Notice of the training will be sent out and posted to the AOS website as soon as the dates and locations have been finalized.

If you have any questions regarding the information presented in this Bulletin, please contact the AOS Local Government Services Section at (800) 345-2519 or the AOS Accounting & Auditing Support Group at (800) 282-0370.

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