

Date: November 27, 1995 (Revisions as of February 2020 shown in red font and strikeout.)
Bulletin: 95-016

AUDITOR OF STATE BULLETIN

TO: ALL SCHOOL DISTRICT TREASURERS
ALL EDUCATIONAL SERVICE CENTER TREASURERS
ALL IPAS

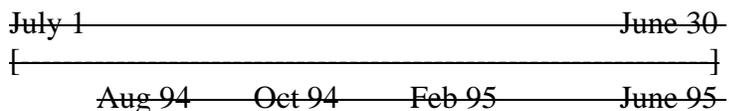
SUBJECT: SCHOOL GAAP ISSUES

Note: This Bulletin predates GASB Statement 34, so the 2020 revisions (in red font) include, among other revisions, guidance for reporting accruals in the entity-wide, full accrual statements.

This bulletin provides information to school districts that may be useful in preparing their GAAP financial statements. ~~for the 1995 fiscal year. Although it is already late in the statement preparation process, the bulletin may help reduce the number of audit issues that arise later on.~~ The bulletin will respond to some of the more frequently asked questions and address issues that have been treated inconsistently in Ohio, as well as identifying some of the changes in GAAP that are now in effect.

Accruing Property Taxes -- Superseded by Bulletin 2001-004

~~Current GAAP states that a receivable for property taxes should be established for taxes that have been levied. Property tax revenue is to be recognized in the year for which it is levied (the year in which it is available for appropriation), provided it is available. Property taxes are considered available if they are due, or past due and received within the available period, and collected within the current period or soon enough thereafter to be used to pay liabilities of the current period. The tax calendar for schools is based on four settlements occurring within the fiscal year as follows:~~



~~August and February represent real and public utility property tax settlement dates. October and June represent personal property tax settlements. These settlements are for several different tax years. Taxes are levied and collected on a calendar year basis. 1993 real property taxes are levied by school districts in April 1993, and settled in February and August of 1994.~~

~~1994 personal property taxes are levied by school districts in April 1993, and settled in June and October of 1994. 1993 public utility taxes are levied by school districts in April 1993, and settled with real property taxes in February and August of 1994. The following chart for the settlements occurring in the 1995 fiscal year may make this process a little easier to understand.~~

<u>Settlement</u>	<u>Type of Tax</u>	<u>Tax Year</u>	<u>Levy Date</u>
August 94	Real Property Public Utility	1993 1993	April 93 April 93
October 94	Pers. Property	1994	April 93
February 95	Real Property Public Utility	1994 1994	April 94 April 94
June 95	Pers. Property	1995	April 94

You can see from the chart that all settlements occurring within a fiscal year are levied prior to the beginning of the fiscal year. It would be therefore be appropriate to establish a receivable at June 30, 1995, for the 1996 fiscal year's estimated settlements. It would not be appropriate to recognize revenue at June 30, 1995, for the 1996 fiscal year's estimated settlements since the anticipated taxes were levied for the 1996 fiscal year. The receivable is therefore offset by a credit to deferred revenue. The only exception to this approach occurs when second half real property taxes are available as an advance prior to year end. Since state statute allows boards of education to appropriate advances available at June 30, 1995, for the 1995 fiscal year, it should be recognized as revenue rather than deferred. This approach may differ from what your district has been doing. If so, a restatement of beginning of the year balances would be required if the amount to be recognized is material.

Rollback and Homestead

In a recent bulletin dealing with foundation payments (Bulletin #95-012, dated September 13, 1995) we identified new guidelines for the recognition of revenue from entitlements. The guidelines state that an entitlement may not be recognized as revenue prior to the year it is intended to finance. Several school districts have asked about applying the new guidelines to homestead and rollback reimbursements received within the available period. Homestead and rollback payments are entitlements paid by the State to a political subdivision. They are intended to reimburse the subdivision for reductions in property tax revenue caused by credits granted to certain property owners by state statute. Based on guidance provided in "Governmental Accounting, Auditing and Financial Reporting" published in 1994 by the Government Finance Officers Association, the year that an entitlement is intended to finance is based on the year in which it is appropriated by the State. The homestead and rollback payment made following the August settlement is appropriated by

The State in the 95/96 fiscal year and therefore may not be recognized as revenue in fiscal 95 by school districts.

Revised per Bulletin 2001-04:

Rollback and Homestead: These payments represent statutory reductions in property tax bills which are being offset by the State. As of each June 30, there is no receivable, assuming the February settlement has been received.

New Pronouncements in Effect for FY 1995

GASB Statement 10 "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues" is effective for self- insurance programs. The statement provides that if one fund is going to be used to account for a self-insurance program, it must ~~either~~ be the general fund, a special revenue fund (assuming a restricted or committed revenue source exists to pay insured claims, per GASB 54), or an internal service fund. Guidelines identify the proper accounting treatment based on the fund selected. The statement also creates note disclosure requirements for self-insurance programs. See more guidance about risk financing and self-insurance later in this Bulletin and also AOS Bulletin 2001-005.

~~GASB Statement 20 "Accounting and Financial Reporting for Proprietary Funds "is effective this year. The statement provides guidance for determining which pronouncements apply to accounting for proprietary activities, and authorizes a choice regarding certain pronouncements issued after November 30, 1989. Local governments must disclose in the notes to the financial statements which pronouncements are being applied to accounting and reporting for proprietary fund activities.~~
Superseded by GASB 62.

GASB Statement 21 "Accounting for Escheat Property" establishes the fund type in which to report escheat and unclaimed property. Escheat property represents assets that revert to a government because there are no legal claimants or heirs. Unclaimed assets can revert to a government when the person legally entitled to the property fails to make a valid claim within a certain period of time. Escheat ~~and unclaimed~~ property generally should be reported as an asset in the governmental or proprietary fund in an expendable trust fund or in the fund that will ultimately receive the assets if they are not claimed to which the property ultimately escheats. Escheat ~~and unclaimed~~ property should be offset by a liability to the extent it is believed the property will be claimed. Property held for another government should be reported in ~~an agency~~ a custodial fund.

GASB Statement 22 "Accounting for Taxpayer Assessed Tax Revenues in Governmental Funds"
Superseded by GASB 33.

~~establishes that revenue should be recognized for income taxes to the extent they are measurable and available at year end, net of estimated refunds. If the amount accrued equals the actual payment received during the available period, an estimate of refunds is not necessary. The State Treasurer withholds from the quarterly payments amounts needed for the payment of refunds. Most school districts with an income tax will already have been following the guidelines of this statement. If not, the notes to the financial statements should recognize that the statement went into effect for this year and report any material restatement caused by the change as of June 30, 1994.~~

← 101 "Compensated Absences"

~~GASB Statement 16 "Accounting for Compensated Absences" was effective last year, but some reports did not indicate that it had been adopted. Statement 16 expanded the scope of the liability for compensated absences to include benefit payments that are probable, rather than just reporting those that are already vested.~~

← earned, accrued, and more likely than not to be taken or settled

GASB Statement 23 "Accounting and Financial Reporting for Refunding of Debt Reported by Proprietary Activities" is effective for fiscal 1995. Although Ohio school districts are unlikely to refund proprietary fund debt, certain elements of this guidance apply to refunded debt of governmental activities reported in the entity-wide statements.

GASB Statement 101 also requires the inclusion of most salary-related payments except those for Defined Contribution Pension and OPEB plans.

GASB Technical Bulletin No. 94-1 "Disclosures about Derivatives and Similar Debt and Investment Transactions" is effective for fiscal 1995. The Bulletin defines derivatives and establishes disclosure requirements for districts that have used, held or written derivatives during fiscal 1995 was superseded by GASB 53, ¶68 - ¶79.

Year-End Accounts Payable

Year-end accounts payable represent goods or services received prior to year-end for which payment has not yet been made. All outstanding year-end accounts payable should be reported as fund liabilities on the balance sheet, not just those paid during the available period. This means that a search for payables that is limited to the available period may not be adequate. The search should continue until you are no longer discovering significant additional payables.

Accrued Liabilities

Accrued liabilities are obligations incurred as of the balance sheet date but for which payment has not yet been made. All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements. In general, governmental fund payables and accrued liabilities that, once incurred, are paid timely and in full from current financial resources are reported as fund liabilities.

Governmental fund liabilities and expenditures for claims and judgments, compensated absences, termination benefits, landfill closure and postclosure care costs, or for the receipt of goods and services for pollution remediation should be recognized to the extent the liabilities are "normally expected to be liquidated with expendable available financial resources."

Governments, in general, are normally expected to liquidate liabilities with expendable available financial resources to the extent that the liabilities mature (come due for payment) each period. For all types of expenditures to which this criterion applies, the criterion for modified accrual recognition is whether and to what extent the liability has matured, independent of the method and timing of resource accumulation. A net pension/OPEB liability should be recognized in the governmental funds to the extent that benefit payments are due and payable and the pension/OPEB plan's fiduciary net position is insufficient to pay those benefits.

Fringe Benefits Owed to Employees

As of June 30, many school district employees have fulfilled the requirements of their employment contracts. These contracts may run from September 1 through August 30 and require the school district to provide insurance benefits to the employee for the entire contract term. If the district is legally responsible for providing the insurance based on services already provided by the employee, whether or not the employee is rehired for the following school year, then the district should report a liability to the employee for the cost of the coverage for July and August in its annual financial statements for the year ended June 30, 1995. If the liability has not been recorded in previous years, a restatement of the July 1, 1994, fund balances/retained earnings net position must be presented either in the financial statements or in the notes thereto.

Amounts Owed to the Retirement Systems

(The following applies to contributions owed for the fiscal year, not to the net pension liability GASB Statement 68 requires.)

School districts that pay the employer share of retirement contributions through a deduction from foundation payments are two months behind in paying STRS and six months behind are current with payments to SERS (that is, June's SERS deduction covers the employer's share for June's wages).

These foundation deductions are based on salary estimates the school district provides. You can estimate the employer's share of STRS contributions payable by multiplying the foundation deduction times either two or six.

For both systems, the liability should also include amounts deducted for the employees' liability share for wages earned through June 30 but paid after June 30.

The SERS liability also requires an amount for the surcharge. Surcharges can be paid through foundation deductions or directly, and you should calculate the liability accordingly. This is an accrued liability that must be reported as a fund and entity-wide liability. The allocation of the liability among funds should follow the district's policy for allocating foundation deductions. The result should be an annual expenditure/expense for employer contributions equaling the employer contribution rate times total covered payroll.

Workers' Compensation

~~Payments made to workers' compensation in one calendar year are to pay for coverage provided for the previous calendar year. Payments made in 1995 pay for 1994 coverage. The liability at June 30, 1995 equals the 1994 contribution rate times 1994 salaries plus the 1995 contribution rate times salaries for January through June of 1995 minus any payments made in January through June of 1995.~~

The Bureau of Worker's Compensation transitioned to *prospective* billing beginning January 1, 2016. School Districts should review their payment option to determine if there are any payables or prepaid assets related to their worker's compensation. This liability should be reported on both the fund financial statements and the entity-wide statements. The liability should be allocated among the funds that pay it, remembering that GAAP suggests that an appropriate allocation be made to proprietary funds.

Also see Bulletin 2013-007 for the accounting treatment related to worker's compensation rebates.

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Compensated Absences

~~The liability for compensated absences is now based on guidance provided by GASB Statement 16. The liability for payables from proprietary funds is reported entirely within the proprietary funds and within business-type activities. The liability payable related to governmental activities is reported in the entity-wide statements. Only the liability for payments currently due from governmental funds is recorded in the fund statements, allocated between the funds and the GLTDAG. The portion of the liability reported within the funds represents the amount estimated to be paid using current available financial resources. Two methods for calculating the fund liability are identified in the "Accrued Liabilities" section of this bulletin. The first method calculates the fund liability by summing payments made during the available period that reduce the year-end liability. The fund liability under the second method equals the portion of the liability that has been funded.~~

Reporting Entity

Defining the reporting entity under the guidance of GASB Statement 14 is still generating many questions. The most frequent areas of concern include data acquisition sites (now called *information technology centers* (ITC), self-insurance pools, booster organizations and cash activity that is not on the books of the school district treasurer.

Information Technology Centers

Most ITCs are reported as *jointly-governed organizations*, but there are exceptions:

One exception exists when the participant agreement requires member districts to pay the ITC's outstanding obligations (such as a capital lease of computer equipment) the ITC is unable to pay. These ITC's should be reported as *joint ventures*.

A second exception exists when one district controls an ITC. The district controlling the ITC should report it as an enterprise fund.

A third, though rare exception exists if the agreement specifies the method for distributing assets upon the ITC's dissolution *and* each district's interest upon dissolution arose from annual operating subsidies rather than operations. These ITCs are *joint ventures* and each district should report its equity interest on its balance sheet. .

Self-Insurance Pools

There are three types of self-insurance pools operating in Ohio. The first is a *shared-risk pool*. A shared-risk pool operates like an insurance company. Subject to the terms of the agreement creating the pool, premium payments may be used to pay the claims of any participant. Premium payments are recorded as expenditures/expenses by the district and as revenue by the pool. The pool should issue financial statements that identify the operation and financial condition of the pool as a whole.

The second type of pool is a *claims servicing pool*. The pool reviews and pays claims of the participants, either directly or through services provided by a third-party administrator (TPA), and invests available balances. The financial activity related to each participating school district is kept separately. A school district's payments to the pool may only be used to pay its own claims, not those of other participants. Most school districts report their participation in this type of pool through a self-insurance internal service fund. Revenues of the fund represent payments by the district's other funds. Expenses include claims, administrative charges and the purchase of stop-loss coverage. The fund should also reflect any year-end cash balance held by the pool as "Cash with Fiscal Agent" on the balance sheet.

Some additional comments regarding claims servicing pools may help some school districts avoid potential problems.

The claims expense reported for the year should include the amount of the liability for unpaid claims costs as of June 30. This liability is a year-end estimate, usually provided by the third party administrator, of the additional costs that will be paid for ongoing claims and the cost of claims that have been incurred but have not yet been reported.

The third type of pool is a *group purchasing pool*. This pool shops for insurance as a group with the intention of securing better rates than if each participant purchased insurance separately. The pool may collect the premiums from the participants for payment to the insurer. Payments to the pool should be reviewed to determine when payment is made to the insurer and the period covered by the payment. Payments to the insurer may be current expenditures/expenses or they may be a prepaid. Each participant's proportionate share of money still held by the pool at year-end should be reflected on the

participant's financial statements.

TPAs are *service providers* as that term is defined in ~~Statement in Auditing Standards No.70. See Bulletin 95-10, issued by this Office on September 7, 1995.~~ *Statement of Standards for Attest Engagements 16 (SSAE 16) and auditing standard AU-C 402.*

Routinely determine that your stop-loss insurance provider is financially sound either by requesting a copy of the audited year-end report or by checking the company's rating with A.M. Best. *A Report on an Examination of Controls at a Service Organization Relevant to User Entities' Internal Control over Financial Reporting* conducted under SSAE 16 is also valuable in helping to assure a district's TPA is properly controlling its transactions. These reports are also useful for a district's audits, and can reduce audit costs.

School districts are required under Ohio Rev. Code Section 9.833 to establish adequate reserves for their self-insurance programs for health care benefits, and to have the adequacy of the reserves evaluated annually by an actuary. The report of the actuary is to be filed with the administrator of the program. *(See AOS Bulletins 2001-05 and 2011-08 for more guidance about these Ohio Rev. Code requirements.)*

If you report the activity of a self-insurance program on your financial statements, take care to insure that revenues and expenses are properly matched to the correct fiscal year. This can be difficult if financial information is provided by a third party for use in your report.

Booster Organizations

Booster organizations are not currently presented as part of the school district's financial statements under GAAP unless the money of the organization is considered *public* under state statute. In general, if a booster organization gives the impression that contributed money will be under the control of the board of education, then the contributed money will be considered *public*. *Also, see Bulletin 2004-01 which describes GASB 39 criteria regarding reporting requirements for booster organizations.*

Cash Off The Books

It is not unusual for GAAP statements of a school district to include cash that is not on the books of the treasurer at year end. Examples include money with a financial institution for servicing debt, money held in escrow during construction, money held by a third party administrator providing claims servicing for a self-insurance program, ~~money held in a deferred compensation program under section 457 of the internal revenue code~~ *(deferred compensation plan assets are no longer reported, per GASB 32)*, and money in a payroll account that does not reconcile to zero. In each instance, journal entries should be made to present this money on the balance sheet of the district, and may be necessary to correctly present revenues and expenditures. Bulletin 2020-03 also provides guidance for classifying and reporting certain "off-the-books" cash.

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~~ *(614)466-4717* or the Audit Division at (800) 282-0370. Any legal questions raised by this bulletin should be directed to your legal counsel.

Jim Petro, Auditor of State
State of Ohio