AUDITOR OF STATE BULLETIN 98-011
NOVEMBER 20, 1998

TO: ALL SCHOOL DISTRICT TREASURERS
ALL IPAs

SUBJECT: NOTE DISCLOSURES

This Bulletin provides suggested language for changes in school district note disclosures for fiscal year 1998. The Bulletin incorporates changes from the implementation of GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and External Investment Pools" and GASB Statement No. 32, "Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans", required reporting for the budget reserve created by the workers' compensation refund, updated language for reporting the DeRolph decision on State school funding, current information available from the retirement systems and disclosures for those districts that participate in the Ohio Schools Council electricity purchase program.

This Bulletin does not address the new disclosure requirements regarding year 2000 issues. That subject is being addressed in a separate Bulletin.

Questions concerning this Bulletin should be addressed to your regional Auditor of State Office or the Accounting and Auditing Support Division at (800) 282-0370.

Note 2 - Summary of Significant Accounting Policies

Cash and Investments

To improve cash management, cash received by the School District is pooled. Monies for all funds, including proprietary funds, are maintained in this pool. Individual fund integrity is maintained through the School District's records. Each fund's interest in the pool is presented as "equity in pooled cash and cash equivalents" on the combined balance sheet.

During fiscal year 1998, investments were limited to {STAROhio, repurchase agreements, treasury notes, federal agency securities...}

Example 1
Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices. {If a quoted market price is not available the methods and significant assumptions used to estimate the fair value of investments must be disclosed.} Nonparticipating investment contracts such as repurchase agreements and nonnegotiable certificates of deposit are reported at cost.

The (local government) has invested funds in the State Treasury Asset Reserve of Ohio (STAROhio) during fiscal year 1998. STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price which is the price the investment could be sold for on June 30, 1998.

Example 2
Except for investment contracts and money market investments that had a remaining maturity of one year or less at the time of purchase, investments are reported at fair value which is based on quoted market prices. {If a quoted market price is not available the methods and significant assumptions used to estimate the fair value of investments must be disclosed.} Investment contracts and money market investments that had a remaining maturity of one year or less at the time of purchase are reported at cost or amortized cost.

The (local government) has invested funds in the State Treasury Asset Reserve of Ohio (STAROhio) during fiscal year 1998. STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price which is the price the investment could be sold for on June 30, 1998.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 1998 amounted to $x,xxx,xxx, which includes $xxx,xxx assigned from other School District funds.

The School District has segregated bank accounts for monies held separate from the School District's central bank account. These interest bearing depository accounts are presented on the combined balance sheet as "cash and cash equivalents in segregated accounts" since they are not required to be deposited into the School District treasury.

For purposes of the combined statement of cash flows and for presentation on the combined balance sheet, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the School District are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

Restricted Assets

Restricted assets in the general fund represent cash and cash equivalents (an intergovernmental receivable) set aside to establish a budget stabilization reserve. This reserve is required by State statute and can be used only after receiving approval from the State Superintendent of Public Instruction. During fiscal year 1998, the School District received a $ (At June 30, 1998 the School District has a $ Intergovernmental receivable for a) refund from the Bureau of Workers' Compensation which State statute required (requires) to be included in this reserve. This refund is presented as "other revenue" in the accompanying financial statements. A fund balance reserve has also been established.

(Please modify this note, if you have a receivable instead of cash)

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Fund Balance Reserves

Include budget stabilization reserve for workers' compensation refund.

Note 3 - Change in Accounting Principles

For fiscal year 1998, the School District has implemented GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investments Pools." The statement established accounting and reporting guidelines for government investments and investment pools. Certain investments which were reported at cost in previous years are now reported at fair value.

The implementation of GASB Statement No. 31 had the following effect on fund balance/retained earnings as it was previously reported as of June 30, 1997. (Include table showing previously reported amounts, amount of change, and restated balances.)

The School District has also implemented GASB Statement No 32, "Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans" for its deferred compensation plan through XXXX. On September 1, 1997, XXXX created a trust for the assets of the plan for which the School District has no fiduciary responsibility. Therefore, the balance of XXXX deferred compensation plan of $1,702,617 was shown as a reduction in the deferred compensation agency fund. At June 30, 1998, the Ohio Public Employees Deferred Compensation Plan had not established a trust; therefore, these monies remain in the deferred compensation agency fund.

Note 6 - Cash and Cash Equivalents

State statutes classify monies held by the School District into three categories.

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the School District treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits the Board of Education has identified as not required for use within the current two year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings accounts, including passbook accounts.

Protection of the School District's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the treasurer by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public money deposited with the institution.

Interim monies may be deposited or invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;

2. Bonds, notes, debentures, or any other obligations or securities issued by any federal

government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;

4. Bond and other obligations of the State of Ohio;

5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;

6. The State Treasurer's investment pool (STAROhio);

7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred and eighty days from the date of purchase in an amount not to exceed twenty-five percent of the interim moneys available for investment at any one time; and,

8. Under limited circumstances, debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

[Include 7 only if treasurer has received the necessary training. Include 8 only if the district has complied with section 135.142 (E) of the Revised Code.]

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the School District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Cash on Hand At year end, the School District had $174,539 in undeposited cash on hand which is included on the balance sheet of the School District as part of "equity in pooled cash and cash equivalents".

The following information classifies deposits and investments by categories of risk as defined in

GASB Statement No. 3, "Deposits With Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements."

Deposits At year end, the carrying amount of the School District's deposits was ($132,998) and the bank balance was $1,482,958. Of the bank balance:

1. $527,729 was covered by federal depository insurance; and

2. $955,229 was uninsured and uncollateralized. Although all state statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the School District to a successful claim by the FDIC.

Investments The School District's investments are required to be categorized to give an indication of the level of risk assumed by the School District at year end. Category 1 includes investments that are insured or registered or for which the securities are held by the School District or its agent in the School District's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the School District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the School District's name. STAROhio and Deferred Compensation are unclassified investments since they are not evidenced by securities that exist in physical or book entry form.

	Interest Rate	Category 1	Category 2	Category 3	Carrying Amount	Fair Value
Repurchase Agreements		$0	$0	$1,776,224	$1,776,224	$1,776,224
Federal Agency Securities		68,850	29,201	0	98,051	114,094
Treasury Notes		0	0	18,000,000	18,000,000	18,078,594
Deposits with Deferred Compensation Boards	N/A				4,982,647	4,982,647
Investment in State Treasurer's Investment Pool	N/A				12,501,944	12,501,944
Total Investments					$37,358,866	$37,453,503

The federal agency securities have maturities ranging from April 1999 to December 1999. The treasury notes have maturities ranging from March 1999 to May 1999. (Maturities and interest rates are only required to be disclosed when the School District operates an external investment pool. Carrying amount will only need to be disclosed if there are investments which are not reported at fair value. Since the carrying amounts and the fair values for federal agency securities and treasury notes differ, this district must be following Example 2 from the Summary of Significant Accounting Policies.)

The classification of cash and cash equivalents, and investments on the combined financial statements is based on criteria set forth in GASB Statement No. 9, "Reporting Cash Flows of Proprietary and Non-Expendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting."

A reconciliation between the classifications of cash and cash equivalents and investments on the combined financial statements and the classifications of deposits and investments presented above per GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents Deposits	Investments
GASB Statement 9	$32,353,146	$4,982,647
Investments of the Cash Management Pool:		
Repurchase Agreement	(1,776,224)	1,776,224
Federal Agency Securities	(98,051)	98,051
Treasury Notes	(18,000,000)	18,000,000
State Treasurer's Investment Pool	(12,501,944)	12,501,944
Cash on Hand	(109,925)	0
GASB Statement 3	($132,998)	$37,358,866

Note 7 - External Investment Pool

By statute, the School District serves as fiscal agent for various legally separate entities. The School District pools the moneys of these entities with the School District's moneys for investment purposes. The School District cannot allocate its investments between the internal and external investment pools. The external investment pool is not registered with the SEC as an investment company. The fair value of investments is determined annually. The pool does not issue shares. Each participant is allocated a pro rata share of each investment at fair value along with a pro rata share of the interest that it earns. The fair value, carrying amounts, interest rates and maturity dates for both the internal and external investment pools are disclosed in Note 6, "Cash and Cash Equivalents". Condensed financial information for the investment pool follows:

Statement of Net Assets
June 30, 1998

Assets	
Cash	$
Investments	
Interest Receivable	
Total Assets	
Liabilities	
Accrued Expenses	
Net Assets Held in Trust for Pool Participants	
Internal Portion	
External Portion	
Total Net Assets Held in Trust for Pool Participants	$

Statement of Changes in Net Assets
For the Fiscal Year Ended June 30, 1998

Revenues	
Interest Income	$
Fair Value Increase and Decreases	
Total Revenues	
Expenses	
Operating Expenses	
Net Increase in Assets Resulting From Operations	
Distributions to Participants	
Capital Transactions	
Total Increase (Decrease) in Net Assets	
Net Assets Beginning of Year	
Net Assets End of Year	$

Note 11 - Defined Benefit Pension Plans

A. State Teachers Retirement System

The School District participates in 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. The report may be obtained by writing to the State Teachers Retirement System, 275 E. Broad Street, Columbus, Ohio 43215-3771.

Plan members are required to contribute 9.3 percent of their annual covered salary and the School District is required to contribute 14 percent; 10.5 percent was the portion used to fund pension obligations. Prior to July 1, 1997, the portion used to fund pension obligations was 12 percent. 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 contributions for pension obligations to STRS for the fiscal years ended June 30, 1998, 1997, and 1996 were $5,537,412, $5,344,344, and $5,027,575, respectively; 83.3 percent has been contributed for fiscal year 1998 and 100 percent for fiscal years 1997 and 1996. $924,748 representing the unpaid contribution for fiscal year 1998, is recorded as a liability within the respective funds.

B. School Employees Retirement System

The School District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State statute per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 45 N. Fourth Street, Columbus, Ohio 43215.

Plan members are required to contribute 9 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current rate is 14 percent of annual covered payroll. For fiscal year 1998, 9.79 percent was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board. The School District's contributions for pension obligations to SERS for the fiscal years ended June 30, 1998, 1997, and 1996 were $1,386,880, $1,298,775, and $1,136,972, respectively; 48.7 percent has been contributed for fiscal year 1998 and 100 percent for fiscal years 1997 and 1996. $710,858 representing the unpaid contribution for fiscal year 1998, is recorded as a liability within the respective funds and the general long-term obligations account group.

Note 12 - Postemployment Benefits

The School District provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and to retired non-certified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly medicare premiums. Benefit provisions and the obligation to contribute are established by the Systems based on authority granted by State statute. Both systems are funded on a pay-as-you-go basis.

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. Through June 30, 1997, the Board allocated employer contributions equal to two percent of covered payroll to the Health Care Reserve Fund. Beginning July 1, 1997, this allocation was increased to 3.5 percent. For the School District, this amount equaled $922,902 during fiscal 1998.

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the Fund was $1,860 million at June 30, 1997. For the year ended June 30, 1997, net health care costs paid by STRS were $192,077,000 and STRS had 88,718 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, and disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

For this fiscal year, employer contributions to fund health care benefits were 4.21 percent of covered payroll, an increase from 3.5 percent for fiscal year 1997. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member’s pay, pro-rated for partial service credit. For fiscal year 1998, the minimum pay has been established at $12, 400. The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund.

The target level for the health care reserve is 125 percent of annual health care expenses. Expenses for health care at June 30, 1997, were $97,429,197 and the target level was $121.8 million. At June 30, 1997 SERS had net assets available for payment of health care benefits of $146.4 million. SERS has approximately 48,200 participants currently receiving health care benefits. For the School District, the amount to fund health care benefits, including the surcharge, equaled $462,293 during the 1998 fiscal year.

Note 15 - Ohio Schools Council

(Add the following to the GASB 14 disclosure if the School District participates in the electric purchasing program.)

The School District participates in the Council's electricity purchase program which was implemented during fiscal year 1998. This program allows school districts to purchase electricity at reduced rates, if the school districts will commit to participating for an eight year period. The participants make monthly payments based on estimated usage. Each June these estimated payments are compared to their actual usage for the year and any necessary adjustments are made.

Energy Acquisition Corp., a non-profit corporation with a self-appointing board, issued $119,140,000 in debt to purchase eight years of electricity from Cleveland Electric Illuminating (CEI) for the participants. The participating school districts are not obligated in any manner for this debt. If a participating school district terminates its agreement, the district is required to repay the savings to CEI and CEI will refund the remaining prepayment related to that participant to Energy Acquisition Corp.

Note 16 - State School Funding Decision

On March 24, 1997, the Ohio Supreme Court rendered a decision declaring certain portions of the Ohio school funding plan unconstitutional. The Court stayed the effect of its ruling for one year to allow the State's legislature to design a plan to remedy the perceived defects in the system. Declared unconstitutional was the State's "school foundation program", which provides significant amounts of monetary support to the School District. During the fiscal year ended June 30, 1998, the School District received $NN,NNN,NNN of school foundation support for its general fund.

(From the following three paragraphs, include only those programs in which the School District participates.)

The Court also declared the emergency school loan assistance program unconstitutional. The emergency school loan program allowed the School District to borrow money from a commercial financial institution with repayment going directly to the lender from the State through withholding a portion of the School District's future school foundation payments. During fiscal year 1997, the School District had borrowed $NNN,NNN under this program; the final payment of this note will be made in fiscal year 1999. The terms of the debt are further described in Note NN to the combined financial statements.

Also, the Court declared the spending reserve borrowing program unconstitutional. The spending reserve program allowed the School District to borrow against amounts anticipated to be collected from tangible personal property taxes after the School District's June 30 fiscal year end. During the fiscal year ended June 30, 1998, the School District did not borrow under this program; however, the School District repaid $N million borrowed in fiscal year 1997. [Or: During the fiscal year ended June 30, 1998, the School District borrowed $N under this program. This amount will be repaid during fiscal 1999.] Historically, the School District has relied on this borrowing to meet their cash flow needs at the end of each fiscal year. State statute has recently been amended to gradually decrease the annual amount that may be borrowed under this program.

In addition, the Court declared the classroom facilities program unconstitutional. The classroom facilities program provided money to build schools and furnish classrooms. As of June 30, 1998, the School District had received a total of $N.N million under this program.

Since the Supreme Court ruling, numerous pieces of legislation have been passed by the State legislature in an attempt to address the issues identified by the Court. The Court of Common Pleas in Perry County is currently reviewing the new laws to determine whether they are constitutional under the “thorough and efficient” clause of the Ohio Constitution. A decision is expected from the Perry County Court sometime in early calendar 1999; either party then has the right to appeal that decision directly to the Ohio Supreme Court. Any decision made by the Court of Common Pleas is likely to be appealed.

As of the date of these financial statements, the School District is unable to determine what effect, if any, this ongoing litigation will have on its future State funding under this program (these programs) and on its financial operations.