AUDITOR OF STATE BULLETIN 99-017
OCTOBER 18, 1999

TO: School District Treasurers
Independent Public Accountants

SUBJECT: Various Issues

This Bulletin addresses various issues of current interest to school districts.

Set Aside Percentage

A decision has been made to cap the set-aside percentage for the textbook and capital set-asides at three percent for fiscal year 2000 and thereafter. Ohio Admin. Rule 117-2-23, which phases in the set-aside requirement, has been modified to reflect this new limit.

Set-Aside Disclosure

The rules which address the set-asides for textbooks and capital improvements require that each school district include a schedule in its annual financial report that demonstrates compliance with the set-aside requirement. This disclosure is to be presented in the notes to the financial statements. A recommended format for the footnote follows.

	Textbooks	Capital Acquisition	Budget Stabilization	Totals
Set-aside Cash Balance as of June 30, 1998				-------
Current Year Set-aside Requirement				-------
Current Year Offsets				-------
Qualifying Disbursements				-------
Total				-------
Cash Balance Carried Forward to FY 1999				
Amount restricted for ________________				
Total Restricted Assets				

The full amount of offsets and qualifying disbursements should be presented. This presentation means that some of the totals for the year may be negative. A separate row identifies the amount carried forward to the next fiscal year. This amount should either be positive or zero since negative amounts cannot be presented in the financial statements. An explanation of why the negative amounts are not carried forward should be included in the note, such as: "Although the School District had offsets and qualifying disbursements during the year that reduced the set-aside amounts below zero, these extra amounts may not be used to reduce the set-aside requirements of future years. Negative amounts are therefore not presented as being carried forward to the next fiscal year."

Amounts remaining at year-end that have been set-aside to satisfy statutory requirements must be represented by cash and should be presented as restricted assets on the balance sheet. Corresponding amounts should be reported as reserves of fund balance. Amounts remaining at year-end that have been set-aside in excess of statutory requirements should be reported as designations.

The failure to set-aside as required may be reported as a compliance violation and/or finding for adjustment. The inability to calculate and reserve the appropriate amount of the set-aside at year-end may be reported as a departure from GAAP and could require the auditor to qualify or disclaim an opinion on the financial statements.

Revisions to H.B. 412 in the Budget Bill

Am. Sub. H.B. 282, the education biennial budget bill, revised the set-aside requirements created in H.B. 412. The revisions are summarized in the following list. All revisions are effective September 28, 1999 unless otherwise noted.

> Section 42 (temporary law). Notwithstanding Ohio Admin. Code §3301-92-03, by a two-thirds vote a board of education may withdraw funds from its budget reserve if the district can meet one of the nine conditions identified in the bill. These conditions match the conditions contained in the rule except that the five percent threshold for reductions in revenue or unanticipated expenditures has been eliminated. Instead, the amount is required to be "substantial". If you require guidance regarding what is considered substantial, consult with your legal counsel. This temporary law is effective for six months starting on June 29, 1999.
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> Withdrawal of the reserve during this six month period will be considered effective on the date of the board resolution. The board must receive approval of its proposed schedule for replenishing the reserve from the Superintendent of Public Instruction before proceeding with the withdrawal. During the six month period the rule is to be re-filed by the Auditor of State and the Department of Education. We are currently consulting with various school associations regarding the revision of this rule. Effective June 29, 1999.
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> §5705.29 The calculation of the required annual budget reserve set-aside has been revised. The amount to be set-aside is now the amount that when added to the balance carried forward from the prior fiscal year is not less than the sum of one percent of the revenues received for current expenses for the prior fiscal year plus the sum of the amounts credited under §5705.29 for all fiscal years that amounts were required to be credited under this section. This new language gives districts credit against future required contributions for the workers' compensation credited to the reserve under Am. Sub. H. B. 770 since that amount is part of the balance carried forward from the prior year. This provision postpones any new contributions until the amount of the annual contribution exceeds the amount of the refund. It will also give credit against future contributions for voluntary contributions made by a district over and above the minimum contribution required by the statute since that money will

also be part of the balance carried forward from one year to the next.

Refunds or reimbursements from the Bureau of Workers' Compensation must be credited to the reserve until the reserve satisfies the five percent requirement. Any refund or reimbursement received from the BWC and credited to the reserve serves to reduce the minimum contribution required for that fiscal year.

A board may be granted a one-time waiver of the set-aside requirement for the budget reserve if it determines that meeting the requirement would cause the district to significantly reduce or eliminate important educational services. Application is made to the Superintendent of Public Instruction. The waiver applies to the fiscal year in which the waiver is requested or the next fiscal year. The waiver may reduce the contribution or exempt the district from making any set-aside at all. Both the Superintendent of Public Instruction and the Auditor of State must approve the request for a waiver.

§5705.412 The amendment to this section eliminated the requirement that the treasurer send copies of all certificates under this section to the county auditor. Revisions are being proposed for this code section to make it easier to understand and apply. We will keep you informed of any changes.

§3315.17 This revision allows set-asides for textbooks made in one year which exceed the required percentage to reduce the amount required to be set-aside in succeeding fiscal years. Be aware that this provision applies to the textbook set-aside only. Additional contributions to the capital set-aside in one fiscal year will not serve to reduce contributions required in future years.

§3317.022(C)(1) Language added to this section requires that money received under this section be used only for purposes that the Department of Education designates as approved for special education expenses. Money received under this section of the code will be identified by the Department of Education on the district's settlement sheet. Effective June 29, 1999.

§3317.022(E)(1) Language added to this section requires that money received under this section be used only for purposes that the Department of Education designates as approved for vocational education expenses. Money received under this section of the code will be identified by the Department of Education on the district's settlement sheet . Effective June 29, 1999.

§3317.022(E)(2) Language added to this section requires that money received under this section be used only for purposes that the Department of Education designates as approved for vocational education associated services expenses. Money received under this section of the code will be identified by the Department of Education on the district's settlement sheet. The section also requires that a school district continue to offer the same number of vocational education programs in fiscal years 2000 and 2001 that the district offered in fiscal

1999 unless the Department of Education agrees that the district may offer fewer programs in either fiscal year 2000 or 2001. Effective June 29, 1999.

Consideration was given to creating separate funds to segregate the money received under sections 3317.022 (C) (1), 3317.022(E)(1), and 3317.022(E)(2), Revised Code, since the use of this money is now restricted to specific purposes. Consultation with OASBO indicated that the account structure within the general fund is adequate to track the receipt and disbursement of this money and to demonstrate compliance with the new restrictions.

DeRolph Note Disclosure

Recommended language for disclosing the current status of the school funding lawsuit follows:

Note NN -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 Ohio General Assembly 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, 1999, 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. In prior fiscal years, the School District had borrowed $NNN,NNN under this program; the final payment of this note will be made in fiscal year YYYY. The terms of the debt are further described in Note NN to these 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, 1999, the School District did not borrow under this program. [Or: During the fiscal year ended June 30, 1999, the School District borrowed $N under this program. This amount will be repaid during the subsequent fiscal year]. However, the School District repaid $N million borrowed in fiscal year 1998. Historically, the School District has relied on this borrowing to meet its 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 because, in the Court's opinion, the program had not been sufficiently funded by the State. The classroom facilities program provided [specify either grant money or a loan] to build schools and furnish classrooms. As of June 30, 1999, 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 Ohio General Assembly in an attempt to address the issues identified by the Court. The Court of Common Pleas in Perry County has reviewed the new laws and, in a decision issued on February 26, 1999, determined they are not sufficiently responsive to the constitutional issues raised under the "thorough and efficient," clause of the Ohio Constitution. The State has appealed the decision made by the Court of Common Pleas to the Ohio Supreme Court. At this time, the Ohio Supreme Court has not rendered an opinion on this issue. The decision of the Court of Common Pleas in Perry County has been stayed by the Ohio Supreme Court, and, as such, school districts are still operating under the laws that the Common Pleas Court declared unconstitutional.

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.

E Rate

Many questions have been asked about the required use of the refunds received from telecommunications vendors under this federal program. This grant is currently operating on a reimbursement basis where the school district pays the bill first, a second payment is sent to the vendor by the federal government and that second payment is refunded to the district or applied as a credit to future bills. Guidance for accounting for the credit can be found in Bulletin 99-007. Money received as a refund is receipted into fund 588 but is unrestricted as to use. Most districts seem to be using the money to pay for telecommunications bills or transferring the money to the general fund.

Five Year Forecast

The five year forecast is intended to serve as a means for estimating a school district's financial position in future years. By entering estimated revenues and expenditures, a treasurer is able to see anticipated year-end balances. The anticipated year-end cash balance is presented in line 7.02. A portion of the anticipated year-end cash balance represents money remaining at year-end whose use is restricted by statute. These amounts are presented as reserves of fund balance. Two examples of how a reserve is calculated follow:

At June 30, 1999, a school district has $10,000 of school bus money that has not been encumbered. In the forecast for FY 2000, the treasurer is estimating the receipt of $25,000 in additional school bus money and the expenditure of $30,000. These anticipated expenditures would be presented somewhere within lines 3.01 through 4.3, as appropriate.

> The reserve at June 30, 2000, would be estimated at $5,000 ($10,000+$25,000-$30,000).
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> At June 30, 1999, the school district has a cash set-aside for textbooks of $85,000. The treasurer estimates that the required set-aside for FY 2000 is $150,000. The treasurer has forecasted $200,000 in qualifying expenditures during FY 2000 that are presented within lines 3.01 through 4.3 of the forecast. No offsets are anticipated. The year-end forecasted balance for the reserve for textbooks would be $35,000 ($85,000+$150,000-$200,000).

Once estimated year-end fund balance reserves have been calculated, these reserves and an estimate of the amount of year-end outstanding encumbrances are subtracted from the estimated cash balance to arrive at an amount labeled "Fund Balance June 30 for Certification of Appropriations." This line is designed to allow a treasurer to determine whether the appropriation measure could be certified under the current requirements of §5705.412, Revised Code, if the numbers in the forecast are actually carried forward to a certificate of estimated resources and the appropriation measure. If this line is negative, certification is not appropriate. The format also allows a treasurer to determine if the addition of an expenditure in a forecasted year will create a problem with the certification of that year's appropriation measure.

Several questions have arisen regarding the use and design of the forecast. Hopefully this explanation will resolve some of these issues.

Questions regarding this bulletin should be directed to the Local Government Services Division of the Auditor of State's Office at (800) 345-2519.