

AUDITOR OF STATE BULLETIN 99-004  
MARCH 15, 1999

TO: School District Treasurers  
All Independent Public Accountants  
Ohio School Facilities Commission

SUBJECT: Accounting for School Facilities Commission  
Grants/Loans

The purpose of this Bulletin is to provide guidance regarding accounting and compliance issues related to Ohio School Facilities Commission grants/loans.

Funds

Under the provisions of Ohio Rev. Code §3318.06, the school district may pass a bond issue for site acquisition costs. It may also pass a levy for the required local share of construction costs. The district will also have passed a half mill levy to be used for maintenance of the new facilities and/or repayment of the State's share of the construction costs. Whether the district must use part of the levy for debt service depends on the district's valuation per pupil. In any year in which the district's valuation per pupil is above the State median, half of the levy must be used for debt service. In years in which the valuation is below the median, all of the levy may be used for maintenance.

A Bond Fund, fund number 004, with a special cost center, should be established to account for the debt proceeds to be used for site acquisition. A Project Construction Fund, fund number 010, should be established to account for both the local share and the State share of construction costs. The district will want to use special cost centers within the construction fund to account separately for the State money and the local share. Money required to be used for maintenance should be accounted for within the Maintenance Fund, fund number 034. Money that is used to repay the State's share of construction costs should be recorded on the district's books in a debt service fund, fund number 002.

Accounts

The following list presents the USAS accounts most frequently used to track a classroom facility project.

Receipts

1410 - Interest

This account will be used to track interest earnings on the State money and the local share that is allocated to the construction fund.

1910 - Premium and Accrued Interest

This account will be used in the debt service fund to account for any premium or accrued interest received at the time debt is issued.

1920 - Sale of Bonds

This account reflects the proceeds of the bond issue, except for premium and accrued interest. It should reflect a gross amount. Expenditures should be recorded for any debt issuance costs.

1940 - Note Proceeds

This account will be used to record the State's share of the project costs. If the District's valuation per pupil is so low compared to other districts in the State that repayment of the loan is remote (meaning that the entire amount of the half mill levy will be used for maintenance), then the State's share of the construction could be coded as 3219 - Restricted Grants in Aid. Determining whether the possibility of repayment is remote is an exercise of judgment that must consider the factors specific to your district.

Expenditures

2700 - Operation and Maintenance of Plant

This function will be used to account for maintenance costs.

5000 - Facilities Acquisition and Construction Services

This function will be used to account for the site acquisition and construction costs.

6000 - Debt Service

This function accounts for debt service payments and the costs of issuing debt.

Expenditures from the Construction Fund

The treasurer may spend money from the project construction fund only after receiving approval from the Commission or its designated representative.

Need for Special Cost Centers

The need for special cost centers within the construction fund is driven by three issues. First, the district is required by statute (Ohio Rev. Code §3318.08 (Q)) to spend the State's share of the construction costs first. Second, the district may have rebatable arbitrage issues concerning the timely use of the debt proceeds. Finally, effective March 18, 1999, Ohio Rev. Code §3318.12 prescribes a different distribution at the end of the project for interest earned on the State's share as opposed to interest earned on the local share of the project. In order to have adequate records to address each of these issues,

the district should create special cost centers within the construction fund to account separately for the State and local money and the interest earned on each.

Within USAS, the district would use the account edit program to establish revenue and

expenditure accounts, assigning a special cost center between 0001 and 8999 to segregate the State and local money. The district would use the account edit program to establish a cash account for the construction fund using 0000 as the special cost center. If you elect to use special cost centers, remember that the expenditure accounts that will be used to pay a purchase order must be specified at the time the purchase order is prepared. If you anticipate paying a purchase order from accounts in both special cost centers, make sure all accounts are specified. It is difficult to add accounts or split payments later.

### Budgetary

Once the grant or loan has been approved by the State, the treasurer should obtain an amended official certificate of estimated resources for all or part of the grant or loan, based on what is to be received in the current fiscal year. Any money expected to be received in the next year should be reflected on the next year's certificate.

The board of education must pass appropriations in accordance with the terms and conditions of the grant or loan. The failure of the board to appropriate the grant or loan funds prior to expenditure or obligation of funds will constitute a noncompliance citation during an audit. If the grant or loan will be expended over a period longer than the current fiscal year, only the amount estimated 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).

In situations when the grant or loan will be received after the expenditures have been incurred, it is possible that the district will have appropriated an amount in one fiscal year that is in excess of the amount reflected as available on the amended certificate of estimated resources. This situation will not constitute a noncompliance citation during an audit. This approach is only acceptable when the eventual receipt of the resources to pay for the full amount of the contract is certain, such as when the money will be coming from the State or federal government based on an approved grant.

### Quarterly Distributions

The district will receive an allocation of the State's share quarterly based on information provided by the district and submitted to the Commission by the construction manager. The allocation will be based on anticipated need.

### Payment of the Construction Manager

The construction manager will be paid directly by the State from the State's share of the project. The quarterly draw down schedule will document amounts paid to the construction manager during the preceding quarter. These amounts should be recorded as receipts of the State's share and as construction expenditures on the district's financial records. When establishing budgets for the project, these amounts should be included in estimated receipts and appropriations. When preparing GAAP financial statements, adjusting entries may be made to reflect these amounts in the proper fiscal year.

## SEC Rule 15c2-12

This rule, adopted by the Securities and Exchange Commission, may place continuing disclosure requirements on school districts that issue bonds or notes to meet the local share requirement. Consult bond counsel to determine if your district will be subject to continuing disclosure and, if so, what you will be required to do to meet those requirements.

## Repayment of State's Share

Ohio Rev. Code §3318.06 allows school districts to use the proceeds of the required half mill levy for maintenance of the new facilities provided the district's adjusted valuation per pupil is less than the state-wide median adjusted valuation per pupil. In any year in which the district's per pupil valuation exceeds the state-wide valuation median, half of the proceeds of the levy must be used to repay the loan.

Proceeds of the levy that are sent to the State for re-payment of the loan should be budgeted and appropriated and recorded as revenues and expenditures in a special cost center in the Bond Retirement Fund, fund code 002, even though the money is sent directly by the County to the State.

## H.B. 412 Capital Set Aside Requirements

Proceeds of the half mill levy that are to be used for maintenance may be used to offset the capital set-aside requirements of H. B. 412 in the year of receipt.

Proceeds of debt for classroom facility construction may also serve as an off set. Refer to Auditor of State Bulletin 98-014 for details.

## Remaining Balance

These guidelines are effective prior to March 18, 1999 - Any balance remaining in the construction fund at the end of the project must be refunded to the State unless the final cost of the project is less than the amount paid into the project construction fund by the district. In this case, the amount by which the district's contribution exceeds the actual cost is returned to the district.

These guidelines are effective after March 17, 1999 - Any interest earned on the local share of the project remaining in the project construction fund after the project has been completed must be transferred to the district's maintenance fund and used for maintaining the classroom facilities included in the project. Any interest earned on the State's share of the project remaining in the project construction fund after the project has been completed must be returned to the Commission. Any other balance remaining in the fund after the project has been completed is split between the Commission and the district in proportion to their respective contributions to the fund. Under the provisions of Ohio Rev. Code §5705.14, the balance retained by the district should be transferred to the debt service fund for the retirement of the outstanding bonds.

### Interest

Effective March 18, 1999, State statute requires that all interest earned on the investment of the project construction fund must be credited to the project construction fund. Interest credited to the fund should be allocated by special cost center, splitting interest earned on the investment of local money from interest earned on the State's share.

### Retainage

The district will be required to retain a portion of the construction payments under the provisions of Ohio Revised Code §153.63. The specific requirements are set forth in the contract between the Commission and the district. Retainage will be deposited in an escrow account with an Ohio bank. It is recommended that retainage be reported on the district's balance sheet in an account such as "Cash and Cash Equivalents with Escrow Agent."

### Questions

Questions regarding this Bulletin may be directed to the Local Government Services Division of the State Auditor's Office at (800) 345-2519 or to Mr. Anthony Tripodi, Chief Financial Officer, Ohio School Facilities Commission, at (614) 466-6290.