



Auditor of State Bulletin

Date Issued: February 2, 2009

TO: School District Treasurers
Independent Public Accountants

FROM: Mary Taylor, CPA
Auditor of State

SUBJECT: Reporting Federal Student Loans – Adult Education

School districts and educational service centers (Schools) with adult education programs may receive federal financial assistance through the ~~Federal Family Education Loans (FFEL) Program (CFDA # 84.032) and~~ Federal Direct Student Loans (Direct Loan) Program (CFDA # 84.268). This bulletin explains how Schools receiving these federal loans should (1) report these loans on their Federal Awards Expenditures Schedules, (2) account for them, and (3) report them in GAAP financial statements.

Note: The federal government no longer offers FFEL loans. New loans are made under the direct program, 84.268.

Background Information

It is important to remember that the loan is between a lender and a student (or their parents), not between the lender and a School. The loan amount may include more than the tuition cost, which belongs to and is payable to the student. The School is often acting as a fiscal agent on behalf of the student for these loans.

The federal gov is the lender in the direct loan program.

The ~~FFEL and~~ Direct Loan programs make ~~interest-subsidized or unsubsidized Stafford loans to~~ students or PLUS loans to parents of dependent students to pay the cost of attending postsecondary educational institutions, including school districts and educational service centers. ~~Eligible lenders (banks, savings and loan institutions, etc.) make FFEL loans, which state or not-for-profit guaranty agencies insure.~~ The federal government reinsures loans guaranteed by the guaranty agencies. The Secretary of Education makes Direct Loans. The Schools must certify the borrower’s eligibility to receive the funds (i.e. loan proceeds) for both programs.

Guidance for Reporting in Federal Award Expenditure Schedules

OMB ~~Circular A-133~~ Compliance Supplement Part 5, ~~Section III(C)~~ states, “a disbursement of funds occurs on the date an institution credits a student’s account [i.e. recognizes tuition revenue as described later] or pays a student or parent directly with either Student Financial Assistance (SFA) funds or its own funds.”

The following table describes common federal student loan distribution methods:

Now included in the cash management guidance from the student financial assistance cluster.

Loan Distribution Methods
1. The lender deposits the money directly in the School's bank account via EFT and the School distributes the appropriate amounts to the adult education program as tuition and any additional amount to the student.
2. The lender sends a check to the School made payable to the borrower (student or parent) or copayable to the School and the borrower requiring the signature of both.

Regardless of the loan distribution method, the Federal Awards Expenditure Schedule (the Schedule) should report amounts received and disbursed as described in the *Guidance for Recording Loans in the Accounting Records and in External Financial Statements* below.

The U.S. Department of Education's website indicates ~~both Direct Loan and FFEL loans~~ will be paid through the School in at least two installments. The loan money must first be applied to pay for tuition and fees, and other allowable school charges. If additional loan money remains, the School pays the student by check or in cash, unless the student gives the School written authorization to hold the funds until later in the enrollment period.

Schools must report all Direct Loan program disbursements and submit required records to the Direct Loan Servicing System via the Common Origination and Disbursement (COD) within 30 days of disbursement. Each month, the COD provides Schools with a School Account Statement data file which consists of a Cash Summary, Cash Detail, and (optional at the request of the school) Loan Detail records. The School should periodically reconcile these records to its financial (i.e. fund) records. Independent Auditors can use the monthly reports and related reconciliations to help substantiate the receipts and disbursements of the Direct Loan program.

We assume the student loan monies under these programs are provided to the students/parents through the Schools. We assume that any loans students receive for which the School receives no notification are not federal loans issued under the FFEL or Direct Loan Programs and therefore Schools should not report them on their Schedules.

Federal Uniform Guidance, §200.510

Per ~~OMB Circular A-133, Subpart C, Section 300(a)~~, Schools are responsible for identifying and accounting for student loans issued under CFDA #84.032 and #84.268. The Schools must maintain sufficient documentation to enable them to report the amounts on their Schedules.

Monies Returned to Lenders or to the Federal Government:

There are instances (such as when a student withdraws) in which the School must return student loan monies to ~~the lender in the case of FFEL Loans or to~~ the federal government in the case of Direct Loans. In these cases, the Schools must return the unearned portion of the loans as described below. Schools should exclude receipts and disbursements related to material returns from its Schedule.

Additional info re: COD is available at:
<https://ifap.ed.gov/eannouncements/attachments/0329FAQCODAttach.pdf>

Guidance for Recording Loans in the Accounting Records and in External Financial Statements

Recording the transactions in cash-basis accounting records

- Schools should record gross “loan proceeds” in its agency fund (USAS Fund 022) as follows:
 - Establish a special cost center in Fund 022
 - One cost center is sufficient, although the School must keep track of each student’s loan receipts, disbursements, and cash balance
 - Record Direct Loan proceeds as *restricted grants in aid received directly from federal government* (USAS Code 4210)
 - ~~Record the proceeds of FFEL loans received from lenders other than the federal government as *restricted grants in aid received from federal government through other intermediate sources* (USAS Code 4239)~~
 - Also record Direct ~~and FFEL~~ loan proceeds as *receipts* of the Direct or FFEL Federal programs on the Federal Awards Expenditure Schedule
 - Record all agency fund disbursements from this special cost center as described below

- When the School provides the educational service:
 - Record an agency fund *other miscellaneous use of funds* disbursement (USAS Function 7900, Object 942).
 - Also record these agency fund payments as disbursements from the Direct ~~or FFEL~~ programs on the Federal Awards Expenditure Schedule.
 - Record the same amounts as *tuition* (USAS Code 1239) in the Adult Education Fund (USAS Fund 012).

- If the “loan proceeds” exceed the amount of the tuition and allowable fees, Schools should disburse the excess amounts remaining in the agency fund to the borrower (student or parents) and record the disbursement as *other miscellaneous use of funds* (USAS Function 7900, Object 942).
 - Also record these agency fund payments as disbursements from the Direct ~~or FFEL~~ programs on the Federal Awards Expenditure Schedule.

- If the School must return monies to ~~lenders in the case of FFEL Loans or to~~ the federal government in the case of Direct Loans:
 - For loan proceeds remaining in the agency fund:
 - If returned in the same fiscal year in which recorded as a receipt, record the amount returned to the lender as a reduction in receipts (i.e. reduce receipts recorded to USAS Codes 4210 or 4239 as applicable).
 - Note this entry would also properly reduce the amount reported as receipts in a School’s Federal Awards Expenditure Schedule.

- If returned in a fiscal year subsequent to the year in which recorded as a receipt, record the amount returned to the lender as a *refund of prior year receipts* (USAS Function 7500, Object 930)
- If the loan proceeds have been paid to the Adult Education Fund and recorded as *tuition* receipts:
 - If returned in the same fiscal year in which recorded as a receipt, record the amount returned to the lender as a reduction in *tuition* receipts
 - If returned in a fiscal year subsequent to the fiscal year in which recorded as a receipt, record the amount returned to the lender as a *refund of prior year receipts* (USAS Function 7500, Object 930)

Reporting these transactions in GAAP financial statements

Agency funds report only their assets and liabilities in basic GAAP statements. For these loans, the only agency fund asset is loan proceeds (i.e. cash) the School is holding, with an offsetting liability to the student. If the School prepares a *combining statement of changes in assets and liabilities* for its agency funds (as is required in comprehensive annual financial reports), the agency fund should report *additions* and *reductions* when it receives and disburses cash.

Full accrual statements should record *tuition* revenue (an exchange transaction) when the School provides educational services.

Schools should reclassify any cash recognized as *tuition* in the Adult Education Fund prior to providing educational services as *deferred revenue*.

Deferred inflow or unearned revenue. See GASBS 63 & 65.

If a School classifies its adult education fund as a governmental fund, it should follow the modified accrual-basis. The accounting is the same as described in the preceding two paragraphs, except the School should defer (as a liability, rather than recognize revenue) any tuition earned but received after the *available* period.

Other Single Audit Considerations:

~~Both the FFEL and~~ the Direct Loan programs are part of the Student Financial Aid Cluster as designated by the Office of Management and Budget. As mentioned above, Schools are responsible for determining and reporting the amounts of the awards on their Federal Awards Expenditures Schedules. Auditors are responsible for testing the completeness and accuracy of amounts reported on the Schedule. Auditors are also responsible for including the expenditures of these loan programs in their major program determinations in accordance with OMB Circular A-133. If auditors determine the Student Financial Assistance Cluster is a major program, they should audit the program's compliance. AOS staff must use the Student Financial Assistance (SFA Cluster) Federal Award Compliance Control Record (FACCR) available on the Auditor of State website as their audit program for these loans. IPA's may use the FACCR or comparable documentation.

You can find the FACCR at:

~~<http://www.auditor.state.oh.us/LGS/Publications/AuditorsForms/AuditForms/faccrs.htm>~~

Questions:

If you have any questions about this Bulletin, please contact the Accounting & Audit Support Division of the Auditor of State at (800) 282-0370.

Updated FACCR link: <http://www.ohioauditor.gov/references/practiceaids/faccrs.html>

Mary Taylor, CPA
Auditor of State



Auditor of State Bulletin

Date Issued: March 2, 2009

TO: Municipalities
Townships
County Commissioners
Independent Public Accountants

FROM: Mary Taylor, CPA
Ohio Auditor of State

SUBJECT: Audit and Financial Reporting Requirements for Joint Economic Development Districts

in this bulletin, "JEDD" also includes Joint Economic Development Zones (JEDZ) formed per ORC 715.691.

Overview

This bulletin describes communications we require for Joint Economic Development Districts (JEDD), as well as certain JEDD activity financial reporting considerations.

Ohio Rev. Code Sections 715.70 through 715.83 govern the creation and operation of JEDD.

These Sections permit one or more townships and one or more municipalities to contribute resources for cooperative economic development and / or to provide services such as water and sewer utilities. These Sections also authorize JEDD to levy a district-wide income tax.

For *example*, a township may have a nonresidential (i.e. business) area needing water and sewer utilities and an adjoining municipality may have water and sewer utilities. Establishing a JEDD is one method by which a municipality can extend its utility services into a township.

JEDD Organization

four

There are ~~three~~ statutory methods under which JEDD may organize:

- Ohio Rev. Code Section 715.70 or 715.71¹, or
- Ohio Rev. Code Sections 715.72 through .81

Or Joint Economic Development Zones formed per ORC 715.691.

These ~~three~~ methods have many similarities, but obviously are not identical. JEDD and their auditors should refer to the applicable Revised Code sections and the organizational *contract*²

¹ ORC 715.70 and 715.71 apply mainly to JEDD created in charter counties. As of this date, only Summit County has adopted a charter.

² Ohio Rev. Code Sections 715.70(B)(1), 715.71(B) or 715.72(C) describe these contracts for each of the three organizational methods.

creating JEDD when determining financial reporting, fund, and contract- compliance auditing requirements.

Information the Auditor of State Requires

The Ohio Revised Code requires each JEDD to submit the following information to the Auditor of State:

- Notification of the creation of a JEDD
- An unaudited annual financial report from each JEDD

The following explains these requirements.

Ohio Rev. Code 117.10 requires each public office to notify the Auditor of State within 30 days of its creation.

Though some JEDD may have existed for a number of years, we request that each municipality or township participating in a JEDD contact their regional state auditor's office³ and inform our office of the JEDD's existence, and the nature of its financial activities.

~~Our regional office will then determine the required auditing for each JEDD's activity.~~

~~We recognize that we may already be auditing much of the significant JEDD financial activity. For example, we already audit municipalities collecting and disbursing income taxes a JEDD levied. We will not require duplicative audits of these activities, but we request municipalities or townships notify us to help us assure we are aware of JEDD financial activity.~~

Each JEDD must also file an unaudited annual report with the Auditor of State, per Ohio Rev. Code Section 117.38. See Auditor of State Bulletin ~~2008-001~~ for more information about Ohio Rev. Code Section 117.38.

- JEDD annual reports should include receipts and disbursements from their own cash accounts
- JEDD annual reports should also include JEDD-levied income taxes
 - Though a municipality collects and distributes the tax, the JEDD levy the taxes and should report them as *tax* receipts and *intergovernmental* disbursements in their annual reports.

guidance is now in Bulletin 2015-07.

Fund Requirements for Member Municipalities and Townships

³ ~~You can find your regional Auditor of State Office's phone number at our website: www.auditor.state.oh.us Click on *Auditor's Office*, then *Audit Division*. The regional office links on the Audit Division page show the counties each regional office serves.~~

See *JEDD Reporting*, later in this Bulletin.

Please refer to the Resources/AOS Notifications tab on the website at: www.ohioauditor.gov

- If a municipality or township receives JEDD income taxes, or other amounts these governments may use for purposes sufficiently broad that the tax (or other receipt) is essentially unrestricted, the government should record the receipts in its general fund.
 - Municipalities or townships receiving JEDD income taxes should classify these amounts as *intergovernmental receipts* rather than as *taxes*, because the JEDD levies the tax rather than the municipality or township.
- Municipalities collecting and distributing JEDD income taxes should record amounts they receive and remit to other JEDD participants (or to the JEDD itself) in an agency fund.
- A municipality may provide water, sewer, electric, or other utility services to the JEDD “area” pursuant to Ohio Rev. Code Section 715.74. This activity should not require new funds if it merely extends the municipality’s existing utility services. The municipality’s existing utility funds are normally adequate to segregate cash received, disbursed or held for utility services.
- If municipalities or townships receive cash from the JEDD with substantive restrictions the JEDD imposes on its use, they should establish separate funds in their accounting system to segregate these amounts.
 - Establishing separate funds may require written permission from the Auditor of State. *See* Ohio Rev. Code Section 5705.12 and Ohio Compliance Supplement (OCS) Step 1-24. You can view the OCS under the *Publications* link at the Auditor of State’s website: www.auditor.state.oh.us

Currently in OCS step 1-4.

Auditing JEDD Activity

We will not require auditors of member townships or municipalities to test compliance with the organizational requirements of the Ohio Rev. Code. Instead, audit testing should focus on whether the member municipalities and townships have complied with terms of the *contract* relating to whether these governments are meeting their respective significant economic / financial requirements.

For example, Ohio Rev. Code Sections 715.70(D)(1), 715.71(F) and 715.74(A) include virtually identical language summarizing allowable financial activity. For example, Ohio Rev. Code Section 715.74(A) states:

The contract creating a joint economic development district shall provide for the amount or nature of the contribution of each contracting party to the development and operation of the district and may provide for the sharing of the costs of the operation of and improvements for the district. The contributions may be in any form to which the contracting parties agree and may include, but are not limited to, the provision of services, money, real or personal property, facilities, or equipment. The contract may provide for the contracting parties to share revenue from taxes levied on property by one or more of the contracting parties, if those revenues may lawfully be applied to that purpose under the legislation by which those taxes are levied. The contract shall specify and provide for new, expanded, or additional services, facilities, or improvements. The

contract may provide for expanded or additional capacity for or other enhancement of existing services, facilities, or improvements.

Audit steps related to the above would include:

- Obtaining evidence that the municipality and township is meeting its contractual “contribution” requirements in material respects.
 - If a government has fulfilled its contribution / obligations, retain audit documentation supporting this fact in the permanent file.
- Obtaining evidence that a municipality collecting and distributing JEDD income taxes pursuant to Ohio Rev. Sections 715.70(F)(5), 715.71(G), or 715.74(C)(2), did collect and distribute these taxes to the participating governments in accordance with the contract.
 - This step only applies to audits of a municipality responsible for collecting these taxes.
- Determine whether participating governments’ accounting systems adequately segregate restricted resources (if any) received and disbursed pursuant to the contract. (See guidance about establishing funds in the *Fund Requirements* section above.)
- Obtain evidence supporting whether the municipality or township disbursed restricted resources (if any) for purposes the contract authorizes in material respects.

JEDD Reporting and Disclosure

GAAP governments (e.g. cities) or OCBOA governments should follow GASB 14 reporting and disclosure requirements for JEDD in which they participate. For example, a JEDD contract may create a *joint venture* or *jointly-governed organization*. GAAP governments and their independent auditors should determine the proper application of GASB 14 for JEDD in which they participate.

Other governments should briefly disclose the following in their notes:

- The government’s participation in a JEDD.
- Significant services / facilities / improvements / enhancements, etc. provided under the JEDD contract.
- The government’s significant financial obligations (i.e. contributions, if any) under the JEDD.
- Disclose income taxes a government receives pursuant to a JEDD contract.
- Any other significant financial provisions of the contract.

your regional Auditor of State's office.

Questions and Comments

If you have any questions regarding this Bulletin or the financial reporting requirements, please contact ~~the AOS Accounting & Auditing Support Section at (800) 282-0370.~~

Mary Taylor, CPA
Auditor of State

Also, often a municipality (or other government) is "merely" the fiscal agent for a legally-separate JEDD. In these cases, the fiscal agent should report the JEDD's cash activity in an agency / custodial fund. The JEDD should also report this activity in its own statements using the proper fund(s).