

AUDITOR OF STATE BULLETIN 2001-007

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

SUBJECT: Changes in 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 (the Commission) grants/loans that have arisen since the passage of Amended Senate Bill 272, effective September 15, 2000.

Levy for Maintenance of School Facilities Projects

The proceeds of a levy authorized by Section 3318.06 of the Ohio Revised Code that are to be used for maintenance of a school facilities project under Chapter 3318 of the Ohio Revised Code should be receipted in the Classroom Facilities Maintenance Fund, fund number 034. This fund should be classified as a governmental fund type, special revenue fund. The tax levy proceeds generated for facilities maintenance are restricted to those maintenance expenditures associated with the project for which the levy was approved and are not available for maintenance of other school district facilities.

Prior to 1996, school districts participating in the classroom facilities program were required to pass a half-mill levy for the repayment of State funds loaned to the school districts for the construction of classroom facilities. The levy continued until the loan was repaid, but in no case for a period longer than twenty-three years. At the end of the twenty-three year period, any amount remaining was forgiven.

In 1996, the law was amended to permit the levy proceeds to be used for maintenance of the classroom facilities project provided the school district's adjusted valuation per pupil was less than the state-wide median. One-half of the levy was to be used for maintenance of the classroom facilities project and the other half of the levy was to be used to pay the cost of the purchase of the classroom facilities from the State. In addition, the School Facilities Commission could enter into a supplemental agreement with a school district that was paying the full amount of the half-mill levy to the State under the previous version of the code section. The supplemental agreement permitted repayment of the State's share based on the school district's valuation per pupil and use of the levy proceeds for facilities maintenance under the same terms stated above.

Under Section 6 of Amended Senate Bill 272, any school district whose agreement with the Commission requires the school district to pay the State one-half of the tax levy is not be required to make any payments to the State after September 15, 2000.

Alternative to the One-Half Mill Maintenance Levy

Amended Senate Bill 272 permits a school district that has a continuing levy in place under Section 5705.21 of the Revised Code for on-going permanent improvements of at

least two mills to earmark the equivalent of a one-half mill from that levy for a period of 23 years or the equivalent number of years as required under law. This option is only available if the permanent improvement levy allows for maintenance. The levy proceeds earmarked to be used for maintenance should be accounted for within the Classroom Facilities Maintenance Fund 034. The treasurer should file a copy of the resolution earmarking one-half mill of the levy with the county auditor of each county in which any part of the school district is located.

Exception to the Maintenance Levy Requirement for Certain Districts

The act provides a special exception to the maintenance tax requirement for school districts where the tax would raise only a small amount of money. It permits any school district board to not propose the maintenance tax to its voters if the Department of Taxation estimates that the tax during the first 12 month period of collection would raise less than ten percent of the amount that the district is required to deposit into its Capital and Maintenance Reserve Fund under Section 3315.18 of the Revised Code.

Options for Raising School District's Share of the Project

Leveraged Bonds - The act permits a school district, at its option, to apply the proceeds of either a previous or newly authorized property or income tax levy that is levied for general on-going permanent improvements to leverage (issue) bonds in an amount equal to all or part of the bond issue and tax levies otherwise required for participation in the Classroom Facilities Assistance Program. The earmarking of such tax proceeds and the issuance of bonds for that purpose may be done without voter approval as long as the proceeds may lawfully be used for general classroom facilities acquisition and maintenance. The treasurer shall file a copy of the resolution with the county auditor of each county in which any part of the school district is located. The bonds issued for this purpose are exempted from the debt limitation.

The bond proceeds are to be credited to fund 010, Classroom Facilities. The proceeds of the property tax levy or income tax revenues pledged for debt repayment are to be recorded to the bond retirement fund. A special cost center should be used to segregate the revenues and related debt payments from other debt service activity.

Local Donations - The act permits a school district to apply any local donated contributions toward the school district's share of the basic project cost and thus reduce the amount of bonds the school district must issue under the Classroom Facilities Assistant Program. Local donated contribution means money irrevocably donated or granted to the school district by some source other than the State, and cash the school district has on hand, which may include year-end operating balances or any letter of credit issued on behalf of the school district. Any local donated contributions must be credited to the school district's Classroom Facilities Project Fund 010.

The application of cash, operating fund balance, or letter of credit must be approved by the Ohio School Facilities Commission in consultation with the Department of Education.

Disbursement of Funds, Interest Earnings and Closing of Project Fund

The Ohio School Facilities Commission will disburse quarterly to the school district's project construction fund the State's share of the project. The amount disbursed is based

on estimates provided by the school district and the construction manager.

Effective March 18, 1999, State statute requires that all interest earned on the investment of the project construction fund 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.

The treasurer of the school district board is to disburse funds from the school district's project construction fund, including investment earnings credited to the fund, only upon the approval of the School Facilities Commission or their designated representative. The School Facilities Commission or their designated representative is to issue vouchers against the project fund, in accordance with the terms of the contracts for the construction of the project. Disbursements from the project fund are to be recorded to the appropriate special cost center in accordance with the spending priority established in the contract with the School Facilities Commission.

After the project has been completed:

(A) Any investment earnings remaining in the project construction fund that are attributable to the school district's contribution to the fund are to be transferred to the district's maintenance fund (fund 034) and used solely for maintaining the classroom facilities included in the project;

(B) Any investment earnings remaining in the project construction fund that are attributable to the State's contribution to the fund are to be remitted to the Commission for expenditure pursuant to sections 3318.01 to 3318.20 of the Revised Code.

(C) Any other surplus remaining in the school district's project construction fund after the project has been completed will be transferred to the Commission and the school district board in proportion to their respective contributions to the fund. Under Section 5705.14 of the Revised Code, the balance retained by the school district is to be transferred to the debt service fund for the retirement of the outstanding bonds.

Priority for Spending State vs Local Bond Monies

Under Section 3318.08 of the Revised Code, the Ohio School Facilities Commission will enter into a written agreement with the school district board for the construction and sale of the project. The agreement may include a number of provisions including the priority for spending State and local monies. In general, all State funds reserved and encumbered to pay the State share of the cost of the project should be spent on the construction or acquisition of the project prior to the expenditure of any funds provided by the school district for its share of the project. If the school district certifies to the Commission that expenditure of the school district's note or bond proceeds is necessary to maintain the tax-exempt status of the debt, the spending priority in the agreement with the Commission may be modified to allow expending all or a part of the school district funds prior to expending the State funds.

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 (C)) 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.

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.

H.B. 412 Capital Set Aside Requirements

The annual proceeds of the half-mill levy used for maintenance qualifies as an offset to the capital set-aside requirements of H.B. 412. Proceeds of debt for classroom facility construction may also serve as an offset in the year the proceeds are received. Refer to Auditor of State Bulletin 98-014, question 15 for details.

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."

Other School Facilities Commission Programs

The School Facilities Commission manages the emergency school building repair program and the school building program assistance limited program (see Audit of State Bulletin 97-018). The Commission also awards grants for disability access projects. The grants for these programs are awarded under the rules adopted by the Commission. The funds established for these grants are as follows:

Disability Access Projects, Fund No. 495

School Building Program Assistance Limited, Fund No. 496

Emergency School Building Repair Program, Fund No. 497

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 the Ohio School Facilities Commission, at (614) 466-6290.

Auditor of State - Jim Petro

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