OHIO FACILITIES CONSTRUCTION COMMISSION
FINANCIAL TRACKING & REPORTING REQUIREMENTS

The Project Construction Fund (PCF)

At the heart of the legal partnership for a school district construction project in the Commission program is the respective funding contributions of the state and the school district. After negotiating the school district's master plan, receiving voter approval (if necessary), and securing local funding (either through a conventional bond issue or some other source of local moneys), one of the first things that a school district treasurer will need to do is to create the Project Construction Fund (Fund 010) using special cost centers to distinguish between the local and state shares.

The Project Construction Fund will be administered by the school district treasurer and will receive all the construction revenues for the project. There are four specific revenue streams that must be accounted for and individually tracked by the school district:

1. Local Revenue (through bonds or cash from other local sources) – The project agreement specifies that bond or note proceeds be deposited in the project construction fund within thirty days of sale so as to maximize local interest earnings. If a school district is not issuing debt to fund its portion of the project, whatever local funding it is providing should be deposited in the project construction fund as soon as possible.

2. Interest on Local Funds – This is the interest earnings from the investment of local moneys deposited in the local share Project Construction Fund.

3. State Revenue – Commonly received through what are referred to as "drawdowns," this is the state moneys allocated to the school district quarterly, based on the cash flow needs of the project.

4. Interest on State Funds – This is the interest earnings from the investment of state moneys received and held in the state share Project Construction Fund.

All of these revenue streams must be deposited into the Project Construction Fund and tracked separately, using special cost centers.

Maintenance Fund

The other major revenue stream that the school district must track comes from the proceeds of the one-half mill levy for maintenance (or its equivalent). A separate maintenance fund (Fund 034) must be created to hold the revenue from the required half mill levy or its equivalent as permitted under existing law. District maintenance funds from Fund 034 may not be spent until such time as either an interim or permanent approved maintenance plan for the district's facilities is in place, with the exception of auditor/treasurer fees charged for the collection of the half mill levy. In developing a maintenance plan, districts may contract with maintenance plan advisors using proceeds from Fund 034.

Accounting Requirements

The Auditor of State Bulletins 2006-4, 2001-7 and 1999-04 address the Uniform School Accounting System (USAS) codes and procedures for accounting for the project. The Commission provides training for treasurers and on-going support through the duration of the project.

By establishing the above funds and satisfying the basic accounting requirements, both the state and the school district will be able to answer such questions as how much state, local, and interest revenue is in the fund or how much was spent. The ability to track these revenues and expenditures will be of particular importance at the time of project close-out.

Fund Management – Key Principles

While the Auditor of State's bulletins outline the accounting requirements, some flexibility is permitted in meeting these requirements. The school district is advised to account for the funds in a way that is not only permitted but makes the most sense for the district. For example, some districts choose to establish a separate bank account for the construction fund. The Commission strongly urges the use of operational unit codes if there are multiple buildings in the scope of the project. Whatever accounting procedures the district employs, they must satisfy the generally accepted accounting principles and audit requirements regarding the tracking of revenues and expenditures.

Principle #1: Spending Order.

With the passage of H.B. 153, the spending order has been revised. All districts with a Project Agreement executed after September 29, 2011, will be required to spend the local and state shares simultaneously.

An exception to the requirement will be to allow a district to spend whatever amounts are necessary from local bond proceeds in order to satisfy Federal Arbitrage requirements. School district bond counsel should discuss with the district the details of these requirements and all other aspects of the bond sale.

Principle #2: Any and All Expenditures from the Project Construction Fund Require Commission Approval.

The Commission must ensure that all moneys in the Project Construction Fund, including interest earnings, remain in the fund until such time as the project is completed, any cost overruns have been addressed, and all disputes have been resolved. All payments should have the signature and date signed of the treasurer and the construction manager (CM) prior to payment.

The Commission must ensure that all expenditures can be properly linked to the scope of the project budget. The construction manager (CM), project administrator assigned to the project, and Commission finance staff will assist the district as questions arise.

Principle #3: Proportionality

The so-called "Principle of Proportionality" applies to the disposition of state and local funds in the event that a project does not come in exactly on budget. Specifically, if there are funds remaining in the project construction fund (not including interest earnings) at the close of the project, those moneys must be divided between the school district and the state in the same percentages established in the project agreement. Moneys returned to the school district are to be used in accordance with the requirements of the bond issue, bond documents, and state law (normally these funds are applied to retire the local debt), while funds that are returned to the state are allocated to other school district projects.

Other Specifics Regarding Proportionality

Proportionality and Disposition of Excess Interest Earnings

Any interest that accrues on the state share that remains in the Project Construction Fund at the end of the project will be returned to the state. Any interest that accrues on the local share will be retained by the school district and may be transferred to the Maintenance Fund to augment the proceeds of the required one half mill levy, or transferred to a Permanent Improvement Fund for capital projects, or kept in the PCF for future Commission projects.

Proportionality and Need for Additional Funds

In the event that all state, local, contingency, and interest moneys from the Project Construction Fund are exhausted, and additional funds are required in order to complete the scope of the original project, or if there is a Commission-approved increase in the scope of the project, the additional cost will be shared by the state and local school district in proportion to their original contribution to the project (i.e. for a school district with a 14 percent local share, an increase of $1 million would require the state to provide an additional $860,000 while the school district would have to provide an additional $140,000).

Other Issues and Items

Below are a few other issues that are relative to participating in the Classroom Facilities Assistance Program.

Land Acquisition

The acquisition of real property for construction shall not be funded by the state but shall instead be funded entirely by the school district. Any moneys intended for the purchase of land are to be accounted for separately and deposited in Fund 004 if the proceeds are from a bond issue or in another appropriate local fund.

Spending Schedule

The school district will receive state funds on a quarterly basis. The construction manager (CM) will develop a spending schedule that covers the projected timeline of the project and that also takes into account local arbitrage and cash flow needs. This schedule will track expenditures and revenues to the fund and the state and local shares of each. Payments to the CM will be made directly by the Commission. The cash flow schedule will be revised quarterly by the CM to reflect the most up to date needs of the project.

Retainage Escrow

In addition to the Project Construction and Maintenance Funds, the school district is required to establish an escrow account(s) with a bank in the state of Ohio. As soon as possible after entering into a construction contract, the district should provide an escrow agreement to the contractor for execution. It is the district treasurer's discretion whether an escrow account is established for each contractor or one general escrow account. If one general escrow account is established, the treasurer must maintain a record of interest due each contractor. Retainage is money held back until the project is completed to ensure that contractors maintain a vested interest. Retainage is to be withheld on eight percent of labor during the first fifty percent of the contract price. At this point, these funds shall be deposited in the escrow account and released (along with any interest) to the contractor upon final acceptance of the project. The school district may release a portion of the retainage, upon the request of the contractor, while withholding only that amount deemed necessary to assure completion of the project.

Locally Funded Initiatives (LFI)

A locally funded initiative (LFI) is a scope of work that a school district has elected to fund separately from the project co-funded by the state. The school district assumes all financial responsibility for the LFI and that portion of any project is not subject to Commission approval. Financial transactions for the LFI are recorded either in a building fund 004 or a permanent improvement fund 003, using special cost centers, depending upon the source of the funds, (i.e., bond issue proceeds, permanent improvement levy or funds on hand). Moneys supporting the LFI are not to be deposited in the Project Construction Fund. The Commission, however, will approve contracts and change orders that incorporate work related to the LFI, as long as the financial accounting of the moneys to fund it are maintained separate and distinct from the project funded through the Commission. The District may contract with the CM to oversee the LFI project.

Reconciliation

It is important to the success of the project that the district treasurer and the CM reconcile the accounting transactions quarterly, at a minimum. The Commission recommends that the parties exchange financial transactions on a monthly basis and a full reconciliation be completed quarterly. In addition to the monthly expenditures, the treasurer should provide the interest earnings and drawdowns received. Likewise, the CM should report the payments received directly from the Commission during the month to the district, as the treasurer is required to record, by way of memo entries, the payments made to the CM within the state project fund.

Formal Closeout

The Commission has developed and continues to modify project closeout procedures. The district will be informed of those requirements toward the end of construction. Once a project is completed, the goal is to move quickly to close out the project and move on.

The above is intended as a basic overview of the funding procedures and financial reporting requirements. As questions come up during the course of a project, Commission project administrators and the construction manager will assist. Lois Snyder, Deputy Chief of Finance is the Treasurer contact at the

Commission and may be contacted at (614) 995- 4552 for answers to specific project accounting questions.