
Betty Montgomery Auditor of State

Bulletin 2006-004

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TO: School District Treasurers
ESC Treasurers
Community School Finance Officers
Independent Public Accountants

FROM: Betty Montgomery
Ohio Auditor of State

SUBJECT: New Account Codes for School Districts

The Auditor of State's Office (AOS), in collaboration with the Ohio Department of Education (ODE), has expanded existing Uniform School Accounting System (USAS) account codes to better track debt proceeds and debt payments. The expanded account codes will become available shortly in USAS; their use, however, will not be mandatory until fiscal year 2007. We have also expanded receipt code 3130, Property Tax Allocation, to better identify the variety of tax-related reimbursements received from the State. These new receipt codes are already in place and should be used to record the first personal property tax loss payment to be received by school districts in the May #2 foundation settlement.

Background for the Debt Accounts

Type of Bonds Issued. School districts routinely issue serial, term, and capital appreciation bonds. Serial bonds normally come due in equal annual amounts over the term of the issue. Term bonds have a single maturity date but mandatory redemption provisions requiring redemption of a certain amount of the bonds at regular intervals using money set-aside in a sinking fund. Serial and term bonds will be recorded as an other financing source using the face or principal amount of the bonds (amount payable at maturity), rather than the amount of the proceeds received by the district.

Capital appreciation bonds do not pay interest over the term of the bonds; they are sold at a discount to the face amount of the bonds and pay the face amount at maturity. The amount recorded at the time the bonds are issued would be the present value of the face amount of the bonds discounted at the stated interest rate. This amount will be available from the underwriter or the financial advisor assisting with the debt issue.

Refunding Bonds. Many school districts have found it to be financially beneficial to refund outstanding debt, i.e. issue new debt to repay debt issued at a higher interest rate. The new account codes distinguish between a new debt issue and a refunding issue whose purpose is to refund existing debt.

Premiums and Discounts. If the interest rate paid on the face amount of the bond differs from the market interest rate at the time of the issue, the bonds will sell at a premium or discount to the face value of the bonds. Premiums and discounts will be recorded separately.

Issuance Costs. Compensation paid to the participants in the issue, whether paid directly by the school district or withheld from the proceeds of the debt, will also be recorded separately.

Accrued Interest. Often the date on which the bonds begin paying interest and the date on which the bonds are delivered and the school district receives the proceeds differ. In this situation, the original purchaser of the bonds must pay the district the interest that has accrued as part of the purchase price. The purchaser will then receive a full interest payment on the first interest payment date.

Debt Related Account Codes

The expanded account codes require detailed information about each debt issue to be entered into the system. The face or principal amount of the debt will be entered as 1921 - Sale of Bonds. The new account codes distinguish between a routine debt issue and a refunding issue where the debt proceeds are used to repay outstanding debt. The face amount of the refunding debt will be recorded as 1922 – Sale of Refunding Bonds.

- 1920 - Sale of Bonds
- 1921 - Sale of Bonds
- 1922 - Sale of Refunding Bonds

The refunding (the satisfaction of the liability for the refunded debt) may occur by simultaneously paying the holders of the old debt directly. More frequently, the proceeds of the new debt are paid to an escrow agent to be held in an irrevocable trust that will be used to pay the old debt as it matures. Function (7910) and object (950) codes have been added to specifically identify the amount provided by the new issue that was paid to the refunded bond escrow agent to be placed in trust. Occasionally the amount received from the new issue is not enough to pay off the old debt and additional money is paid to the escrow agent by the district from existing resources. A separate object code (831) has been added to separately identify this type of payment.

- 7900 - Other Miscellaneous Use of Funds
- 7910 - Payment to Refunded Bond Escrow Agent

- 830 - Other Debt Service Payments
- 831 - Payments to Escrow Agents (Not Paid from Bond Proceeds)

- 900 – Other Uses of Funds
- 950 - Payments to Refunded Bond Escrow Agent (Paid from Bond Proceeds)

If the interest rate paid on the face amount of the bond differs from the market interest rate at the time of the issue, the bonds will sell at a premium or discount to the face value of the bonds. The premium or discount should be recorded separately from the proceeds as an other financing source (receipt code 1911 or 1912 in the debt service fund) or use (function 7920, objects 961 or 962 in the bond/project fund).

- 1900 - Other Revenue Sources
 - 1910 - Premium and Accrued Interest on Bonds and Notes Sold
 - 1911 - Premium on the Sale of Bonds and Notes
 - 1912 - Premium on the Sale of Refunding Bonds

- 7900 - Other Miscellaneous Use of Funds
 - 7920 - Discount on the Sale of Debt

- 900 – Other Uses of Funds
 - 960 - Discount on Debt
 - 961 – Discount on the Sale of Debt
 - 962 – Discount on the Sale of Refunding Debt

Often the date on which the bonds begin paying interest and the date on which the debt is delivered to the purchaser differ, resulting in accrued interest. The accrued interest is paid by the purchaser as part of the purchase price and is returned to the purchaser when the first interest payment is paid in full. The accrued interest received as a result of the debt issue should be recorded separately in the debt service fund using receipt codes 1913 and 1914.

- 1900 - Other Revenue Sources
 - 1910 - Premium and Accrued Interest on Bonds and Notes Sold
 - 1913 - Accrued Interest on the Sale of Bonds and Notes
 - 1914 - Accrued Interest on the Sale of Refunding Bonds

There may be a number of parties involved in a bond issue including a financial advisor, bond counsel and underwriter. The compensation paid to these participants, whether paid directly by the school district or withheld from the debt proceeds, should be identified and reported separately using objects 832 and 833.

- 830 - Other Debt Service Payments
 - 832 - Bond Issuance Costs
 - 833 - Refunding Bond Issuance Cost

This level of detail is required by generally accepted accounting principles and will assist in making the cash to GAAP conversion process much more efficient. Identifying the amounts related to each part of the transaction should be significantly easier when done at the time of the transaction rather than having to go back and reconstruct the transaction after year-end. A summary of all the new codes available to record the issuance of debt follows.

Receipt Codes

1900 - Other Revenue Sources

- 1910 - Premium and Accrued Interest on Bonds and Notes Sold
 - 1911 - Premium on the Sale of Bonds and Notes
 - 1912 - Premium on the Sale of Refunding Bonds
 - 1913 - Accrued Interest on the Sale of Bonds and Notes
 - 1914 - Accrued Interest on the Sale of Refunding Bonds
 - 1919 - Other Premiums and Accrued Interest on the Sale of Debt

1920 - Sale of Bonds

- 1921 - Sale of Bonds
- 1922 - Sale of Refunding Bonds

1940 - Proceeds from Sale of Notes

- 1941 - Sale of Current Year Tax Anticipation Notes
- 1942 - Sale of Current Year Revenue Anticipation Notes
- 1943 - Sale of Long-Term Tax Anticipation Notes
- 1944 - Sale of Energy Conservation Notes
- 1949 - Sale of Other Notes

Function Codes

7900 - Other Miscellaneous Use of Funds

- 7910 - Payment to Refunded Bond Escrow Agent
- 7920 - Discount on the Sale of Debt
- 7990 - Other Miscellaneous Use of Funds

Object Codes

830 - Other Debt Service Payments

- 831 - Payments to Escrow Agents (Not Bond Proceeds)
- 832 - Bond Issuance Costs
- 833 - Refunding Bond Issuance Cost
- 839 - Other Debt Service Payments

900 - Other Uses of Funds

- 950 - Payments to Refunded Bond Escrow Agent (Bond Proceeds)
- 960 - Discount on Debt
 - 961 - Discount on the Sale of Debt
 - 962 - Discount on the Sale of Refunding Debt
 - 969 - Discount of Sale of Other Debt

Tax Related Reimbursements

There are numerous instances in which the State has reduced the property tax receipts that local governments would otherwise have received either through direct reductions in tax bills (such as the 10% rollback) or through reductions in assessed values (such as recent reductions in assessed values for electrical utilities). Most recently, the State has eliminated the personal property tax through a series of scheduled reductions in assessed values. In many circumstances, the State provides at least a partial reimbursement for the resulting reductions in property tax proceeds. It is the desire of the

AOS to account for these reimbursements uniformly. We have therefore expanded the 3130 Property Tax Allocation account codes to specifically identify these payments. The account codes are:

3100 – Unrestricted Grants-in-Aid

3130 - Property Tax Allocation

3131 - 10 Percent and 2.5 Percent Rollback

3132 - Homestead Exemption

3133 - \$10,000 Personal Property Tax Exemption

3134 - Electric Deregulation Property Tax Replacement

3135 - Tangible Personal Property Tax Loss

3139 - Other Property Tax Allocations

The elimination of the tangible personal property tax will be offset by the State in two ways. First, a direct payment will be made by the State through the foundation settlement. This amount will be specifically identified as a journal voucher on the semi-monthly settlement statement, the first payment being made in May, 2006. Beginning in August, 2007, the reimbursement for fixed rate levies will come in two parts. Part will come in the form of additional formula aid since the local share of base cost funding (the charge-off) will be reduced as the assessed values used to compute the charge-off decline. The remainder of the reimbursement will still come through direct payments. Only the amount of the direct payment will be recorded as a Property Tax Allocation receipt using the new 3135 account code.

We recognize that school districts have been coding the electric deregulation property tax replacement as 3190, Other Unrestricted Grants-in-Aid, and may be concerned about this change affecting the comparability of prior year statements. For those districts using state software, if this was the only amount recorded as 3190 or if it was the only significant receipt recorded as 3190, you may use the “actchg” function to move prior year information to the new 3134 account. This procedure will affect all prior year data, including the three years of historical data automatically pulled into the five year forecast using State software. This will also allow many of the USAS reports to be re-run for prior years, if desired, in order to make them comparable to current information.

If you have any questions regarding the information presented in this Bulletin, please contact the AOS Local Government Services Section at (800) 345-2519.



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