

# Compilation of School Finance **CODING GUIDANCE**

School Finance, Division of Financial and Administrative Services

July 1, 2016



# Advanced Funding Accounting Procedures



## Advance Funding

The Missouri Health and Educational Facilities Authority (MOHEFA or Authority) established the Advance Funding Program in 1985 in conjunction with the Missouri School Boards Association (MSBA). This program is designed as an instrument to reduce the costs of financing for school districts borrowing through tax and revenue anticipation notes for the purpose of funding cash flow deficits in the current school year. The gain to a school district (or potential reduction in borrowing costs) comes from the interest earned on the statewide aggregate of tax and revenue anticipation notes.

A district interested in participating in this program must first estimate its cash flow circumstances for the current year. This estimate is based on the timing and receipt of the prior year's revenues, expenditures, and actual cash flow deficits, as well as projected financial position. The district can receive assistance in accurately calculating cash flow projections by working with MSBA. The district will be provided a cash flow analysis indicating the amount of funds the district will be eligible to borrow from the Advance Funding Program and the estimated cost or surplus earned by participation in the program. Districts wishing to participate will then authorize the issuance of tax and revenue anticipation notes by resolution using documents provided by MSBA.

In the fall of each year, MOHEFA sells its notes in the public market on behalf of the Advance Funding Program. The principal amount of the notes will equal the aggregate principal amount of the tax and revenue anticipation notes. Upon the closing of the sale of the notes, MOHEFA will use the proceeds to simultaneously purchase the district's tax and revenue anticipation notes by depositing its note proceeds with the program trustee. The Authority notes will mature in approximately 13 months.

The funds loaned to the participating districts by the purchase of the tax and revenue anticipation notes are invested on behalf of the participants by the trustee in a guaranteed investment contract with a major financial institution with a high short-term rating ("AA" or better). Funds are invested to the extent they are not needed to pay costs of issuing the Authority notes and when they are not needed to meet the districts' cash flow deficits. The investment rate earned by the participants under the investment agreement will be the highest investment rate available in the marketplace. This investment rate is typically substantially higher than an individual participant can obtain on their own because (1) the investment has a longer life; and (2) the large amount of aggregate funds invested with the program attracts major investors that are not interested in smaller pools of funds. These funds can be obtained from the trustee when needed by each participant upon reasonable notice.

The tax and revenue anticipation notes will be payable to the Authority on June 30. Any funds remaining in a participant's account (including all of the earnings accrued by the participant) on June 30 will be applied to the payment of principal and interest on the Authority notes. Any excess amount will be paid immediately to the participant. Because of the spread between the tax-exempt note rate and the investment and the fact that most districts only need to draw down a portion of the funds during part (usually October-January) of the 13-month Authority note maturity period, school districts could potentially earn a surplus over borrowing costs by participating in the program. At the very least, a district should see a reduction in the interest cost to borrow.

Due to the costs associated with issuing the Authority notes, some portion of the money is never actually available to the district (e.g., the initial credit to the district's advance funding account is less than the amount borrowed). However, in order to properly account for this transaction, the liability "in total" will be recorded. Premiums generated upon the initial transaction are accounted for as a reduction in future interest expense and costs of issuance refunds (if any) are accounted for as a reduction of the initial costs of issuance. All recorded accounting entries for draw downs (withdrawals) and paybacks will be the amounts actually sent between the trustee and the district. Investment earnings will be recorded from statements of actual earnings sent by the trustee. Transactions are recorded by the district in the fund for which the loan was made. Below is an example of a statement a district will receive from the MOHEFA School District Advance Funding program and the General Journal entries to record all pertinent transactions.

Sample Statement

Participant: XYZ School District  
 Note Amount: <sup>1</sup> \$675,000  
 Status: Small Issuer

Transaction Summary and Repayment Instructions

| Description                                   | Date     | Credit/(Debit)            | Balance      | Earnings From Temporary Deposits |
|---|----------|---------------------------|--------------|----------------------------------|
| Deposit - Net Purchase of District Note       | 09-06-xx | <sup>2</sup> \$669,181.50 | \$669,181.50 |                                  |
|   | 10-01-xx |                           | \$669,181.50 | \$3,239.02                       |
| Withdrawal                                    | 10-27-xx | (\$400,000.00)            | \$269,181.50 | \$3,368.59                       |
|   | 11-01-xx |                           | \$269,181.50 | \$208.47                         |
| Withdrawal                                    | 11-17-xx | (\$269,181.50)            | \$0.00       | \$833.86                         |
|   | 12-01-xx |                           | \$0.00       | \$0.00                           |
|   | 01-01-xx |                           | \$0.00       | \$0.00                           |
| Deposit - Costs of Issue Refund               | 02-01-xx | \$43.83                   | \$43.83      | \$0.00                           |
| Deposit - Net Disbursement Repayment          | 02-01-xx | \$669,181.50              | \$669,225.33 | \$0.00                           |
| Deposit - Deficiency                          | 02-01-xx | \$2,983.19                | \$672,208.52 | \$0.00                           |
| Authority Note Matures                        | 10-01-xx |                           | \$672,208.52 | \$31,235.29                      |
| <b>Total Earnings From Temporary Deposits</b> |          |                           |              | <b>\$38,885.23</b>               |

|                                       |                             |
|---------------------------------------|-----------------------------|
| Disbursement Fund Balance             | \$669,225.33                |
| Less Note Repayment Obligation        | <sup>3</sup> (\$711,093.75) |
| Gross Surplus/(Deficiency)            | (\$41,868.42)               |
| Plus Earnings From Temporary Deposits | \$38,885.23                 |
| Surplus/(Deficiency)                  | <b>(\$2,983.19)</b>         |

On February 1, 20xx the district must deposit:

|  |                     |
|--|---------------------|
| Net Disbursement Repayment                     | \$669,181.50        |
| Deficiency                                     | \$2,983.19          |
| <b>Total wire amount due from the district</b> | <b>\$672,164.69</b> |

If a surplus is indicated, the financial institution will wire the surplus, plus interest on the surplus, to the district on June 29, 20xx.

Transaction Recap

|   |                     |  |                             |
|---|---------------------|--|-----------------------------|
| Earnings From Temporary Deposits        | <b>\$38,885.23</b>  | Application of Funds                     |                             |
| Borrowing Cost                          |                     | Note Amount                              | <sup>1</sup> \$675,000.00   |
| Note Amount                             | \$675,000.00        | Less Costs of Issuance                   | (\$9,207.00)                |
| Note Repayment Obligation               | (\$711,093.75)      | Less Underwriter's Discount              | (\$918.00)                  |
| District Borrowing Cost (Interest Paid) | <b>\$36,093.75*</b> | Plus Premium                             | \$4,306.50                  |
|   |                     | Equals the Net Purchase of District Note | <sup>2</sup> \$669,181.50   |
|   |                     | Plus Costs of Issuance Refund            | \$43.83                     |
|   |                     | Equals the Disbursement Fund Balance     | \$669,225.33                |
|   |                     | Plus Earnings From Temporary Deposits    | \$38,885.23                 |
|   |                     | Less Note Repayment Obligation           | <sup>3</sup> (\$711,093.75) |
|   |                     | Equals the Surplus/(Deficiency)          | <b>(\$2,983.19)</b>         |

\* Before accounting for premium on initial transaction.

<sup>1</sup> Note Amount is the amount borrowed.

<sup>2</sup> Net Purchase of District Note is the Note Amount less the Costs of Issuance less the Underwriter's Discount plus the Premium.

<sup>3</sup> Note Repayment Obligation is the amount necessary to repay the amount of the district's share of the principal and interest to be on the Authority notes.

**Journal Entries**

|                               |                           |
|-------------------------------|---------------------------|
| Note Amount                   | <sup>1</sup> \$675,000.00 |
| Costs of Issuance             | \$9,207.00                |
| Underwriter's Discount        | \$918.00                  |
| Premium                       | \$4,306.50                |
| Net Purchase of District Note | <sup>2</sup> \$669,181.50 |
| Costs of Issuance Refund      | \$43.83                   |

<sup>1</sup> & <sup>2</sup> see footnote on prior page.

General Journal entries to record proceeds deposited to the Advance Funding Program Disbursement Fund and fees paid:

| <u>Date</u> | <u>Description</u>          | <u>A/C No.</u> | <u>Debit</u> | <u>Credit</u> |
|-------------|-----------------------------|----------------|--------------|---------------|
| 9/6/xx      | Other Investments           | 1149           | \$669,181.50 |               |
|             | Fees - Short Term Loans     | 5321-6632      | \$10,125.00  |               |
|             | Loans Payable               | 2121           |              | \$675,000.00  |
|             | Interest - Short Term Loans | 5221-6622      |              | \$4,306.50    |

General Journal entries to record the withdrawal from the Advance Funding Program Disbursement Fund:

| <u>Date</u> | <u>Description</u> | <u>A/C No.</u> | <u>Debit</u> | <u>Credit</u> |
|-------------|--------------------|----------------|--------------|---------------|
| 10/27/xx    | Cash In Banks      | 1111           | \$400,000.00 |               |
|             | Other Investments  | 1149           |              | \$400,000.00  |
| 11/17/xx    | Cash In Banks      | 1111           | \$269,181.50 |               |
|             | Other Investments  | 1149           |              | \$269,181.50  |

General Journal entries to record the Cost of Issuance Refund:

| <u>Date</u> | <u>Description</u>      | <u>A/C No.</u> | <u>Debit</u> | <u>Credit</u> |
|-------------|-------------------------|----------------|--------------|---------------|
| 2/1/xx      | Other Investments       | 1149           | \$43.83      |               |
|             | Fees - Short Term Loans | 5321-6632      |              | \$43.83       |

General Journal entries to record the payback of withdrawals from the Advance Funding Program Disbursement Fund:

| <u>Date</u> | <u>Description</u> | <u>A/C No.</u> | <u>Debit</u> | <u>Credit</u> |
|-------------|--------------------|----------------|--------------|---------------|
| 2/1/xx      | Other Investments  | 1149           | \$669,181.50 |               |
|             | Cash in Banks      | 1111           |              | \$669,181.50  |

General Journal entries to record deficiency in the Advance Funding Program Disbursement Fund (if there was an excess in the Advanced Funding Program Disbursement Fund then the entries would be reversed):

| <u>Date</u> | <u>Description</u> | <u>A/C No.</u> | <u>Debit</u> | <u>Credit</u> |
|-------------|--------------------|----------------|--------------|---------------|
| 2/1/xx      | Other Investments  | 1149           | \$2,983.19   |               |
|             | Cash in Banks      | 1111           |              | \$2,983.19    |

General Journal entries to record interest earned on the Advance Funding Program Disbursement Fund (if a district is on the accrual basis of accounting this entry would need to be made each month when interest is accrued):

| <u>Date</u> | <u>Description</u>               | <u>A/C No.</u> | <u>Debit</u> | <u>Credit</u> |
|-------------|----------------------------------|----------------|--------------|---------------|
| 10/1/xx     | Other Investments                | 1149           | \$38,885.23  |               |
|             | Earnings From Temporary Deposits | 5141           |              | \$38,885.23   |

General Journal entries to record the Advanced Funding Program Loan payoff:

| <u>Date</u> | <u>Description</u>          | <u>A/C No.</u> | <u>Debit</u> | <u>Credit</u> |
|-------------|-----------------------------|----------------|--------------|---------------|
| 10/1/xx     | Loans Payable               | 2121           | \$675,000.00 |               |
|             | Interest - Short Term Loans | 5221-6622      | \$36,093.75  |               |
|             | Other Investments           | 1149           |              | \$711,093.75  |

The following amounts would be reported on the ASBR:

| <u>Part</u>         | <u>Code</u> | <u>Description</u>              | <u>Amount</u> |
|---------------------|-------------|---------------------------------|---------------|
| II                  | 5140        | Earnings on Investments         | \$38,885.23   |
| III-A               | 5200        | Interest                        | \$31,787.25   |
| III-A               | 5300        | Other Fees, etc.                | \$10,081.17   |
| III-B               | 5200-6600   | Interest                        | \$31,787.25   |
| III-B               | 5300-6600   | Other Fees, etc.                | \$10,081.17   |
| III-C               | 6620        | Interest                        | \$31,787.25   |
| III-C               | 6630        | Other Fees, etc.                | \$10,081.17   |
| IV/Advance Funding  | 8002        | Amount Borrowed During the Year | \$675,000.00  |
| IV/ Advance Funding | 8003        | Amount Repaid During the Year   | \$675,000.00  |
| IV/ Advance Funding | 8005        | Interest Paid During the Year   | \$31,787.25   |

# Coding Salary Costs to the Capital Projects Fund



**Coding Salary Costs to the Capital Projects Fund**

District employee salaries and benefits may be coded to the Capital Projects Fund if the employee is doing construction/renovation work for the district. If the employee is a certificated employee, the district may establish an extra duty contract and is required to keep time records for auditing purposes. Keep in mind that a district may not hire individuals for the sole purpose of facility construction. This work must be incidental to their regular employment with the district.

The example shown below assumes that the district’s payroll accounting system is “separate” from the district’s financial books. If the district’s systems are combined, this accounting method will not be able to be used.

Assume that two district employees are doing construction work (paid from bond proceeds as part of a bond-funded construction project) for the district during the summer months. During July, the employees each earned a salary of \$1,500.00, Non-Teacher Retirement and Teachers Retirement, as applicable, in the amount of \$50.00 was withheld and Medicare was withheld in the amount of \$25.00.

General Journal entries to record the salary for a certificated employee, Teacher Retirement, and Medicare:

| <u>Date</u> | <u>General (Incidental) Fund Entry</u> | <u>A/C No.</u> | <u>Debit</u> | <u>Credit</u> |
|-------------|--|----------------|--------------|---------------|
| 6/30/xx     | Supplemental Pay                       | 2542-6131      | \$1,500      |               |
|             | Teacher Retirement                     | 2542-6211      | \$50         |               |
|             | Medicare                               | 2542-6232      | \$25         |               |
|             | Cash in Banks                          | 1111           |              | \$1,575       |

General Journal entries to record the salary for a classified employee, Non-Teacher Retirement, and Medicare

| <u>Date</u> | <u>General (Incidental) Fund Entry</u> | <u>A/C No.</u> | <u>Debit</u> | <u>Credit</u> |
|-------------|--|----------------|--------------|---------------|
| 6/30/xx     | Classified Salaries - Regular          | 2542-6151      | \$1,500      |               |
|             | Non-Teacher Retirement                 | 2542-6221      | \$50         |               |
|             | Medicare                               | 2542-6232      | \$25         |               |
|             | Cash in Banks                          | 1111           |              | \$1,575       |

Adjusting entries will then be made at the end of the fiscal year<sup>1</sup> to move the payment from the General (Incidental) Fund to the Capital Projects Fund. Districts with separate bank accounts for the General (Incidental) Fund and the Capital Projects Fund will need to institute a banking transfer from the Capital Projects Fund to the General (Incidental) Fund. To ensure proper year-end payroll reporting for tax purposes, these entries should only be made to the district’s financial books not the payroll system. Proper notes must be maintained to identify the difference between the salary total shown on the district’s financial books and the total shown on the district’s payroll system.

General Journal adjusting entries to move the payment from the General (Incidental) Fund to the Capital Projects Fund:

| <u>Date</u> | <u>General (Incidental) Fund Entry</u> | <u>A/C No.</u> | <u>Debit</u> | <u>Credit</u> |
|-------------|--|----------------|--------------|---------------|
| 6/30/xx     | Cash in Banks                          | 1111           | \$3,150      |               |
|             | Supplemental Pay                       | 2542-6131      |              | \$1,500       |
|             | Classified Salaries - Regular          | 2542-6151      |              | \$1,500       |
|             | Teacher Retirement                     | 2542-6211      |              | \$50          |
|             | Non -Teacher Retirement                | 2542-6221      |              | \$50          |
|             | Medicare - Teachers                    | 2542-6232      |              | \$50          |

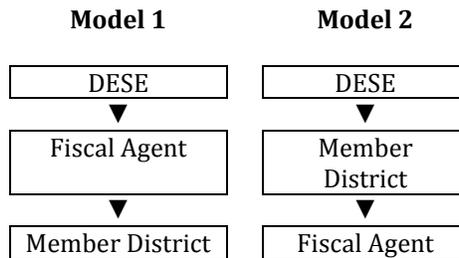
<sup>1</sup>District may make the adjusting entries on any interval; however, these entries must be made by year-end.

| <u>Date</u> | <u>Capital Projects Fund Entry</u>      | <u>A/C No.</u> | <u>Debit</u> | <u>Credit</u> |
|-------------|---|----------------|--------------|---------------|
| 6/30/xx     | Facilities Acquisition and Construction | 40??-6521      | \$3,150      |               |
|             | Cash in Banks                           | 1111           |              | \$3,150       |

# Cooperative- Consortium Fiscal Guidance



Due to the changes in regulations over time and the flexibility in cooperative/consortium structures, Missouri Department of Elementary and Secondary Education asks that districts participating in K-12 agreements follow the guidance described herein related to federal funds. Depending on the program requirements, cooperatives/consortiums may be configured in two fashions. The first model is where the fiscal agent receives all grant funding directly and then distributes it to member districts. The second model is where the member districts receive all grant funding directly and then distribute to the fiscal agent. This guidance applies to both arrangements. Below are diagrams of the two funding models:



**The Department Pays the Fiscal Agent (Model 1)**

Once federal funds are distributed by the Department, fiscal agent must code the receipt in the district’s ledger under the appropriate federal revenue code as described in the Missouri Financial Accounting Manual. When the fiscal agent disperses funds to the member district they will show an expenditure on their books under the appropriate function and object code and tagged with a project/source code to identify the expenditure as coming from federal funds. All disbursements/expenditures must comply with the Cash Management and Improvement Act (CMIA). This means that payments for expenditures should not be based on annual fees, upfront payments, and/or installments, but rather on actual expenditures incurred to date, or expenditures that will incur within three days of receipt of the funds.

When the member district receives the funds from the fiscal agent the receipt of those funds will again be coded to the appropriate federal revenue code as described in the Missouri Financial Accounting Manual. So essentially, these funds will be coded as federal revenue twice, but by different subrecipients.

**The Department Pays Member District (Model 2)**

Once federal funds are distributed by the Department, member districts must code the receipt in the district’s ledger under the appropriate federal revenue code as described in the Missouri Financial Accounting Manual. When the member district disperses funds to the fiscal agent they will show an expenditure on their books under the appropriate function and object code and tagged with a project/source code to identify the expenditure as coming from federal funds. All disbursements/expenditures must comply with the Cash Management and Improvement Act (CMIA). This means that payments for expenditures should not be based on annual fees, upfront payments, and/or installments, but rather on actual expenditures incurred to date, or expenditures that will incur within three days of receipt of the funds.

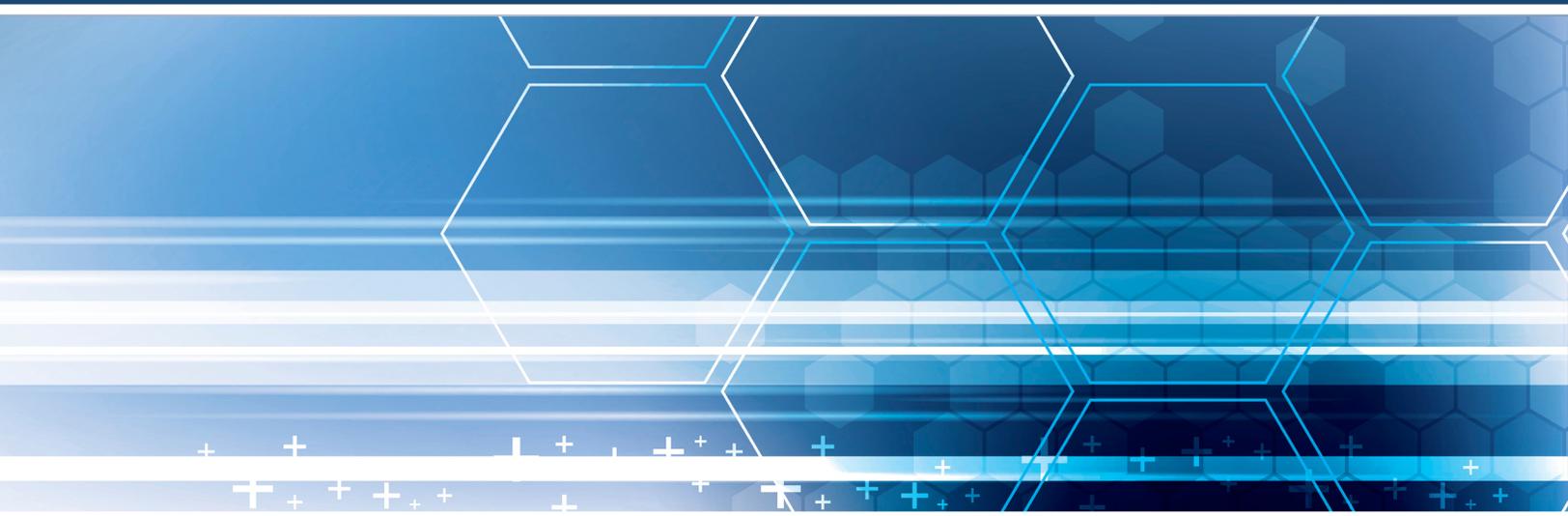
When the fiscal agent receives the funds from the member district the receipt of those funds will again be coded to the appropriate federal revenue code as described in the Missouri Financial Accounting Manual. So essentially, these funds will be coded as federal revenue twice, but by different subrecipients.

**Coding Refunds**

In the event a fiscal agent or member district needs to refund disbursements, the guidance as given in the Refund and Reimbursement policy located on the School Finance Topics and Procedures page must be followed. A remark may be needed in the Annual Secretary of the Board Report (ASBR) to account for the receipt of funds over the grant award amount. If the refund is not expended within three days of receipt, it must be returned to the Department so as not to draw interest.

This page is reserved for future use.

# Equipment Versus Supply





### Criteria for Distinguishing Between Supply and Equipment Items

As a general guideline, if the individual unit cost of an item is \$1,000 or more and the useful life is estimated at more than one year, the purchase will be considered capital outlay, regardless of whether it is a replacement item or purchase of additional equipment. Current minimum per unit in Missouri is \$1,000; however, a district may establish a policy to use an individual unit cost of less than \$1,000 to determine capital outlay expenditures.

### Equipment Items

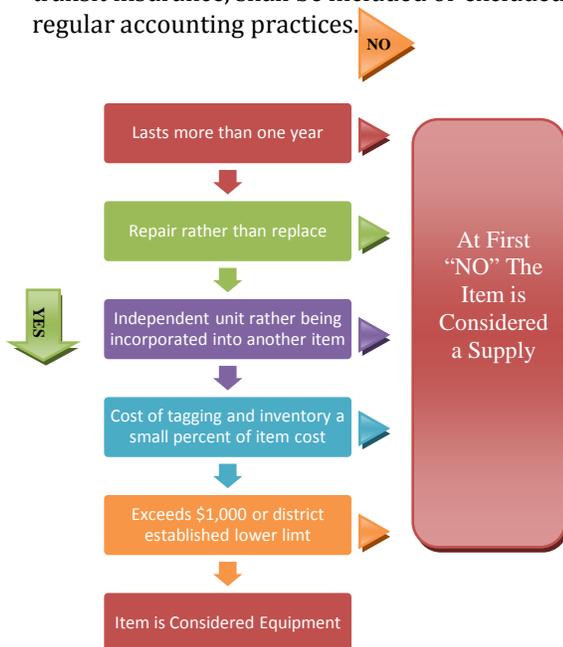
An equipment item is any instrument, machine, apparatus, or set of articles that meets all of the following criteria:

- Individual unit cost of an item is \$1,000 or more unless the district has established a policy to use an individual unit cost of less than \$1,000.
- It retains its original shape, appearance, and character with use.
- It does not lose its identity through fabrication or incorporation into a different or more complex unit or substance.
- It is nonexpendable, that is, if the item is damaged or some of its parts are lost or worn out, it is more feasible to repair the item than to replace it with an entirely new unit.
- Under normal conditions of use, including reasonable care and maintenance, it can be expected to serve its principal purpose for more than one year.

### Differentiating Equipment and Supply Items via the Repair or Replace Criteria

Districts may also differentiate an equipment item from a supply item via the repair or replacement criteria. An equipment item is more likely to be repaired when some of its parts are worn out whereas the supply item is simply replaced.

Acquisition cost of equipment is the net invoice price of the equipment, including the cost of modifications, attachments, accessories, or auxiliary apparatus necessary to make the property usable for the purpose for which it was acquired. Other charges, such as the cost of installation, transportation, duty or protective in-transit insurance, shall be included or excluded from the unit acquisition cost in accordance with the district's regular accounting practices.



### Capitalization of Software

Computer software can be purchased, subscribed to, or internally generated. Software meeting the following criteria would be considered equipment and paid for out of the Capital Projects Fund:

- Software license that is bought that costs \$5,000 or more.
- Internally created software costing \$5,000 or more.

Software purchases costing less than \$5,000, licenses to software lasting less than a year are considered a supply and coded to the appropriate 64xx supply code. Annual maintenance agreements and subscription fees to access online programs are considered a purchased service and coded to a 63xx object code.

Reserved for Future Use

# General Obligation Bonds



## Bond Transactions

A school district may issue bonds for a variety of purposes as outlined in Section 164.121, RSMo. A school may issue original (new) bonds or refund (refinance) existing bonds. While school district officials are not expected to know all of the intricacies of issuing bonds, they should attempt to educate themselves and their local boards on the basics concepts and procedures involved in issuing bonds, the professional services that will be necessary, the various costs to be incurred, and the structuring of the initial repayment schedule. Districts are encouraged to evaluate the costs of professional services when issuing bonds and to bid out such services when practical. Segregating the services of the underwriter, financial advisor, and purchaser of the bonds helps to ensure the district is obtaining the best possible deal.

Districts must also remember the correct placement of bond proceeds and the correct fund from which issuance costs may be paid, as outlined in this section.

## Repayment Schedule Considerations

Increasing or escalating principal payments on a bond issue are common. As growth occurs in the district's assessed valuation, the district can service more bond payments with the same tax levy. Minimizing the fluctuations in the district's tax levy is a wise move in many regards. However, when the repayment schedule for a new bond issue is being established, school officials should evaluate the repayment structure. If a district is trying to blend the new bond payments in with the payments on prior bond issues, it may be appropriate not to have principal payments on the new issue for several years. However, if the district does not have other bond issues outstanding, reasonable bond principal payments should be made throughout the life of the bonds to minimize the overall costs to the taxpayers. A bond repayment schedule that provides for minimal principal payments in the early years and larger payments near the end, is costlier to the taxpayers and almost guarantees that a refunding will be recommended a few years after the initial issuance (for which the district will incur additional costs). In many cases, the refunding results in the repayment schedule being shortened by a year or two and the principal payments being moved up on the repayment schedule. This can give the appearance that the district is saving a lot of money by completing the refunding. However, if the bonds had been structured in a different manner initially, the refunding may not have been necessary. As discussed later in this accounting manual section, school districts are encouraged to review the net present value of a bond refunding prior to completing such a transaction.

## New Bond Issues

Proceeds are always placed in the Capital Projects Fund since this is the fund from which all planned capital expenditures will be made. **Issuance costs are typically paid from the Capital Projects Fund where the bond proceeds have been placed but may, at the discretion of the district, be paid from the General (Incidental) Fund.** It is not appropriate, however, to place a portion of the bond proceeds in the General (Incidental) Fund to pay the costs of issuance. All bond proceeds are to be placed in the Capital Projects Fund per Section 165.011.1, RSMo. Typical issuance costs include bond attorney costs, financial advisor fees, underwriter fees, bond rating fees, SAO registration fees, bond printing costs, and other costs associated with issuing the bonds. (NOTE: Paying agent fees are paid from the Debt Service Fund. Paying agent fees are fees charged by the financial institution responsible for making the payments of principal and interest on the district's outstanding bonds.)

## Arbitrage

A factor in many bond issues is the concept of arbitrage (positive or negative depending on current bond market conditions). Positive arbitrage (generally just referred to as arbitrage) results when bond proceeds are invested in investments yielding higher returns than the yield on the tax-exempt bonds. Excess earnings are subject to being rebated to the federal government at certain intervals over the life of the bond issue. Several rebate exceptions exist. These include the small issuer exception, the eighteen-month spending exception, and the twenty-four month

construction spending exception. Negative arbitrage is the reverse of arbitrage in that the bond proceeds investments are not producing a higher yield than the tax-exempt bonds. In some instances, the district must add monies to the escrow account to fully fund the requirements on the refunded bonds. If arbitrage (positive or negative) is noted in the rebate computations, the district should work with their bond advisors and independent auditor to make sure the arbitrage has been appropriately reported and accounted for.

## Bonds Sold at a Premium

Questions arise periodically on the proper way for school districts to account for a premium generated on the sale of general obligation bonds. There is not a consensus of opinion on the proper recording of these monies as they relate to new money issues. The following discussion is intended to outline the opposing views and to show that bond premiums and bond discounts must be handled similarly.

The Department's view is that both premiums and discounts on bonds sold are interest adjustments and are to be accounted for in the Debt Service Fund. A premium results when bonds are issued at an interest rate higher than the current market rate. Thus, the taxpayers will pay more over the life of the bonds to retire them and it seems appropriate to place the premium in the Debt Service Fund to offset the future interest expenses on the bonds. Likewise, when bonds are sold at a discount, the Debt Service Fund accounts for the discount and the full par amount of the bonds are accounted for in the Capital Projects Fund.

Another view is that premiums represent additional "bond proceeds" which are statutorily required to be placed in the Capital Projects Fund. Section 165.011, RSMo, states in part "...All money received from ... the sale of bonds other than refunding bonds shall be placed to the credit of the capital projects fund...." If bond premiums are considered additional bond proceeds, then bond discounts would have to be accounted for as a reduction to bond proceeds and handled in a similar manner. If bonds were sold at a discount, then the Capital Projects Fund would only receive the lower bond proceeds and the project for which the bonds were issued would have to be completed based on the lower proceeds.

The entries in this accounting manual are based on the Department's view that the most appropriate and fair (to the taxpayers) method of accounting for bond premiums and discounts is to treat them as future interest adjustments and account for them in the Debt Service Fund. Districts desiring to handle premiums and discounts in a different manner may wish discuss the issue with the district's auditor.

## Refunding Bond Issues

Proceeds are actually placed in an escrow account but are accounted for in the Debt Service Fund from which expenditures to pay off existing debt will be made. Issuance costs may be paid from the General (Incidental) Fund or from refunding bond proceeds from the Debt Service Fund per Section 108.140, RSMo. Typical issuance costs include bond attorney costs, financial advisor fees, underwriter fees, bond rating fees, SAO registration fees, bond printing costs, and other costs associated with issuing the bonds. (NOTE: Paying agent fees are paid from the Debt Service Fund. Paying agent fees are fees charged by the financial institution responsible for making the payments of principal and interest on the district's outstanding bonds.)

## Journal Entries

The journal entries associated with either type of bond issue are complex. Further complicating the issue of bonds is a combined issuance where a district issues new bonds along with a refunding of existing bonds. In this case, care must be taken to ensure the proper entries are made for each transaction individually. Section "A" below provides a series of entries typically used to record a new issue of bonds. Section "B" provides a series of entries typically used to record various types of bond refundings.

**Section A - Issuance of New Bonds**

The following transactions address a typical new issue scenario, but may not address every situation encountered. If questions arise, the district auditor may be a valuable resource in resolving a journal entry question.

Assumptions:

|                         |                 |
|-------------------------|-----------------|
| New Bonds Issued        | \$18,000,000.00 |
| Discount on Bonds Sold* | \$133,768.90    |
| Premium on Bonds Sold*  | \$159,591.65    |
| Accrued Interest        | \$2,744.30      |
| Costs of Issuance       | \$259,257.02    |

\* There will not always be a discount and a premium. Most issues have neither. Some have either a discount or premium. This example has both a premium and a discount.

**ASBR Transactions for a New Bond Issue**

Part II - Revenue Summary in the **Capital Projects Fund:**

|      |               |                 |
|------|---------------|-----------------|
| 5611 | Sale of Bonds | \$18,000,000.00 |
|------|---------------|-----------------|

Part II - Revenue Summary in the **Debt Service Fund:**

|      |   |              |
|------|---|--------------|
| 5141 | Earnings on Investments (\$2,744.30 + \$159,591.65) | \$162,335.95 |
|------|---|--------------|

Part III - Expenditures (for Bond Issuance Costs)

If these costs are not capitalized, they may be paid from either the **Capital Projects Fund** or the **General (Incidental) Fund** and are recorded as:

|           |                         |              |
|-----------|-------------------------|--------------|
| 5311-6631 | Other (Fin. Fees, Etc.) | \$259,257.02 |
|-----------|-------------------------|--------------|

If these costs are capitalized as part of the building project, they are paid from the **Capital Projects Fund** and recorded as:

|           |   |              |
|-----------|---|--------------|
| 4051-6521 | Facilities Acquisition and Construction | \$259,257.02 |
|-----------|---|--------------|

Part III - Expenditures in the **Debt Service Fund:**

|           |          |              |
|-----------|----------|--------------|
| 5221-6621 | Interest | \$133,768.90 |
|-----------|----------|--------------|

Part IV, Long and Short Term Debt

|      |                             |                   |
|------|-----------------------------|-------------------|
| 8001 | Balance, Beginning of Year  | \$0.00            |
| 8002 | Amount Borrowed During Year | \$18,000,000.00   |
| 8003 | Amount Repaid During Year   | * \$0.00          |
| 8004 | Balance, End of Year        | * \$18,000,000.00 |
| 8005 | Interest Paid During Year   | * \$0.00          |

\*These may be different if the new bonds require a payment during the fiscal year in which the bonds are issued.

Detail of Part I, 3412, Restricted Fund Balance By Fund:

1004 Bond Proceeds (Capital Projects Fund) \$18,000,000.00

This represents the unspent bond proceeds at the end of the fiscal year (the example assumes total proceeds are unspent at the end of the fiscal year). These funds are restricted for the purposes for which the bonds were issued.

**Example 1 - New Bonds Sold at Par, Premium, or Discount when there are Sufficient Funds in the Debt Service Fund**

Entries to record the issuance of the bonds:

| <u>Date</u> | <u>General Long-Term Debt Account Group Entry</u> | <u>A/C No.</u> | <u>Debit</u>    | <u>Credit</u>   |
|-------------|---|----------------|-----------------|-----------------|
| 7/1/xx      | Amount to be Provided for Payment of Bonds        | 1611           | \$18,000,000.00 |                 |
|             | Amount Available for Payment of Accrued Interest  | 1631           | \$2,744.30      |                 |
|             | Bonds Payable                                     | 2711           |                 | \$18,000,000.00 |
|             | Accrued Bond Interest Payable                     | 2142           |                 | \$2,744.30      |

The Amount to be Provided for Payment of Bonds (GL 1611) and Bonds Payable (GL 2711) accounts will be reduced by the amount of principal paid on the payment date, through a reversing entry. The amount available for Payment of Accrued Interest (GL 1630) and Accrued Bond Interest Payable (GL 2142) will be reversed at the time of the first interest payment subsequent to the bond issuance.

General Journal entries to record the issuance of the bonds (if there are not sufficient funds in the Debt Service Fund to cover the discount, see Example 2):

| <u>Date</u> | <u>Capital Projects Fund Entry</u> | <u>A/C No.</u> | <u>Debit</u>    | <u>Credit</u>   |
|-------------|------------------------------------|----------------|-----------------|-----------------|
| 7/1/xx      | Cash in Banks                      | 1111           | \$18,000,000.00 |                 |
|             | Sale of Bonds                      | 5611           |                 | \$18,000,000.00 |

General Journal entries to record the payment of bond issuance costs vary depending on whether these costs are capitalized as part of the building project or not.

If these costs are not capitalized, the entry is:

| <u>Date</u> | <u>Capital Projects Fund or General (Incidental) Fund Entry</u> | <u>A/C No.</u> | <u>Debit</u> | <u>Credit</u> |
|-------------|---|----------------|--------------|---------------|
| 7/1/xx      | Fees - Bonded Indebtedness                                      | 5311-6631      | \$259,257.02 |               |
|             | Cash in Banks   | 1111           |              | \$259,257.02  |

If these costs are capitalized, the entry is:

| <u>Date</u> | <u>Capital Projects Fund</u>                            | <u>A/C No.</u> | <u>Debit</u> | <u>Credit</u> |
|-------------|---|----------------|--------------|---------------|
| 7/1/xx      | Architecture, Engineering, and Legal Services/Buildings | 4031-6521      | \$259,257.02 |               |
|             | Cash in Banks   | 1111           |              | \$259,257.02  |

General Journal entries to record the amount of monies received for accrued interest upon issuance of the bonds:

| <u>Date</u> | <u>Debt Service Fund Entry</u> | <u>A/C No.</u> | <u>Debit</u> | <u>Credit</u> |
|-------------|--------------------------------|----------------|--------------|---------------|
| 7/1/xx      | Cash in Banks                  | 1111           | \$2,744.30   |               |
|             | Accrued Interest on Bonds Sold | 5142           |              | \$2,744.30    |

General Journal entries to record the bond premium:

| <u>Date</u> | <u>Debt Service Fund Entry</u> | <u>A/C No.</u> | <u>Debit</u> | <u>Credit</u> |
|-------------|--------------------------------|----------------|--------------|---------------|
| 7/1/xx      | Cash in Banks                  | 1111           | \$159,591.65 |               |
|             | Premium on Bonds Sold          | 5143           |              | \$159,591.65  |

General Journal entries to record the bond discount. (If there are not sufficient funds in the Debt Service Fund, see Example 2.):

| <u>Date</u> | <u>Debt Service Fund Entry</u>               | <u>A/C No.</u> | <u>Debit</u> | <u>Credit</u> |
|-------------|--|----------------|--------------|---------------|
| 7/1/xx      | Discount on Bonds Sold - Interest Adjustment | 5241-6624      | \$133,768.90 |               |
|             | Cash in Banks                                | 1111           |              | \$133,768.90  |

**Example 2 - New Bonds Sold at a Discount when there are not Sufficient Funds in the Debt Service Fund to Cover the Discount**  
 (All entries are the same as Example 1, except the following two)

General Journal entries to record the issuance of the bonds:

| <u>Date</u> | <u>Capital Projects Fund Entry</u> | <u>A/C No.</u> | <u>Debit</u>    | <u>Credit</u>   |
|-------------|------------------------------------|----------------|-----------------|-----------------|
| 7/1/xx      | Cash in Banks                      | 1111           | \$17,866,231.10 |                 |
|             | Due from Debt Service Fund         | 1296           | \$133,768.90    |                 |
|             | Sale of Bonds                      | 5611           |                 | \$18,000,000.00 |

General Journal entries to record the bond discount:

| <u>Date</u> | <u>Debt Service Fund Entry</u>               | <u>A/C No.</u> | <u>Debit</u> | <u>Credit</u> |
|-------------|--|----------------|--------------|---------------|
| 7/1/xx      | Discount on Bonds Sold - Interest Adjustment | 5241-6624      | \$133,768.90 |               |
|             | Due to Capital Projects Fund                 | 2187           |              | \$133,768.90  |

**When the district receives tax revenue and can reimburse the Capital Projects Fund for the amount of the discount, the following transactions need to be made:**

General Journal entries to reduce the amount that is due from the Debt Service Fund:

| <u>Date</u> | <u>Capital Projects Fund Entry</u> | <u>A/C No.</u> | <u>Debit</u> | <u>Credit</u> |
|-------------|------------------------------------|----------------|--------------|---------------|
| 7/1/xx      | Cash in Banks                      | 1111           | \$133,768.90 |               |
|             | Due from Debt Service Fund         | 1296           |              | \$133,768.90  |

General Journal entries reduce the amount that is due to the Capital Projects Fund:

| <u>Date</u> | <u>Debt Service Fund Entry</u> | <u>A/C No.</u> | <u>Debit</u> | <u>Credit</u> |
|-------------|--------------------------------|----------------|--------------|---------------|
| 7/1/xx      | Due to Capital Projects Fund   | 2187           | \$133,768.90 |               |
|             | Cash in Banks                  | 1111           |              | \$133,768.90  |

**Recording Annual Principal and Semi-Annual Interest Payments**

General Journal entries to record the payment of principal and interest:

| <u>Date</u> | <u>Debt Service Fund Entry</u>  | <u>A/C No.</u> | <u>Debit</u> | <u>Credit</u> |
|-------------|---------------------------------|----------------|--------------|---------------|
| 3/1/xx      | Principal - Bonded Indebtedness | 5111-6611      | \$500,000    |               |
|             | Interest - Bonded Indebtedness  | 5211-6621      | \$412,200    |               |
|             | Cash in Banks                   | 1111           |              | \$912,200     |

| <u>Date</u> | <u>General Long-Term Debt Account Group Entry</u> | <u>A/C No.</u> | <u>Debit</u> | <u>Credit</u> |
|-------------|---|----------------|--------------|---------------|
| 3/1/xx      | Bonds Payable                                     | 2711           | \$500,000    |               |
|             | Amount to be Provided for Payment of Bonds        | 1611           |              | \$500,000     |

**Recording a Call Premium**

When bonds are issued, the bond transcript will specify whether or not the bonds may be called in for early redemption, and whether a premium must be paid to exercise the call option. Such premium will be expressed as a percentage of par.

Assumptions:

|                                  |                 |
|----------------------------------|-----------------|
| Principal Remaining at Call Date | \$12,000,000.00 |
| Premium on Bonds Called*         | \$240,000.00    |
| Accrued Interest at Call Date**  | \$330,000.00    |

\* Bonds were called at 102% of principal balance remaining.

\*\* Bond interest accrued at 5.5% paid semiannually. Bonds were called on payment date.

General Journal entries to record the payment of a called bond with a premium:

| <u>Date</u> | <u>Debt Service Fund Entry</u>                    | <u>A/C No.</u> | <u>Debit</u>    | <u>Credit</u>   |
|-------------|---|----------------|-----------------|-----------------|
| 3/1/xx      | Principal - Bonded Indebtedness                   | 5111-6611      | \$12,000,000.00 |                 |
|             | Interest - Bonded Indebtedness                    | 5211-6621      | \$330,000.00    |                 |
|             | Fees - Bonded Indebtedness (Call Premium on Bond) | 5311-6631      | \$240,000.00    |                 |
|             | Cash in Banks                                     | 1111           |                 | \$12,570,000.00 |

**Section B - Issuance of Refunding Bonds**

There are two types of debt refundings: current refundings and advanced refundings.

**Current Refundings**

The old bond issue is callable within 90 days of the issuance of the new issue and the proceeds of the new issue are used immediately to repay the old issue.

**Advance Refundings**

The old bond issue is not callable within 90 days of the issuance of the new issue. Advance refundings are further identified as either **defeased** or **crossover**.

**Defeased**

The proceeds of the new issue are placed in an escrow account and used to pay the entire portion of the old issue being refunded (principal and interest) up to and including the call date. This results in a defeasance of the portion of the debt being refunded as the old issue becomes the responsibility of the escrow account trustee and the district begins paying on the new issue immediately. Therefore, the portion of the old issue that is defeased is removed from the district-wide financial statements, if reported, and the money in the escrow account is not reflected in the district’s financial statements. In some cases, the district may have to add additional monies to the escrow account from the Debt Service Fund in order for the escrow account to be able to satisfy all of the payments on the old issue. Often, the purpose of this type of refunding is to restructure the district’s debt payments.

**Crossover**

The proceeds of the new issue are placed in an escrow account. However, unlike defeased bonds, the escrow account pays only the interest payments on the new issue and the district continues to make all of the payments on the old issue until the optional call date of the old bonds. This date is often referred to as the crossover date. Under this type of refunding, the payments to be made by the district will not change until the crossover date. From the date of the refunding to the crossover date, the district will continue making the payments on the old bonds. The old bonds will remain on the district’s books because these bonds have not been defeased. Consequently, both the new issue and the old issue will be reported in the district’s financial records until the crossover date. At the crossover date, the old bonds become callable, which means the old issue is defeased and removed from the district’s financial statements. The district then begins making payments on the new issue. The district will record the refunding bonds (new issue) as a liability or increase in bonds outstanding. The securities purchased or assets acquired from the bond proceeds (escrow account) will be recorded as an increase in the district’s Debt Service Fund with the escrow amount shown as “restricted”. Therefore, there is no net increase in total debt outstanding as the escrow account assets offset the increased liability of the refunding bonds. The ultimate effect of a crossover refunding is to reduce the bond payments (cash flow requirements) from the crossover date to the final maturity of the old issue.

**Differences in Advanced Refundings:**

|                                    | <b>Defeasance</b>  | <b>Crossover</b>  |
|------------------------------------|--|---|
| The district:                      | Immediately begins making all payments that are required for the new issue.        | Continues to pay all required payments of the old bonds until the crossover date. At the crossover date the district begins making payments on the new issue. |
| The escrow account:                | Is fully funded so that it can make all required payments of the old issue.        | Pays the interest payments on the new issue until the crossover date. At the crossover date the balance in the escrow account pays off the old bonds.         |
| The debt of the district includes: | Only the new bonds. The old bonds are completely written off the district's books. | Both the new and the old bonds until the old bonds are paid off on the crossover date.  |
| Accrued interest is sent to:       | The district.  | The escrow account.   |

The following examples may not exactly correspond with the documents the district receives during the bond issuance. Some bond underwriters net the costs of issuance against the bond proceeds and send a check (wire transfer) for the net difference. The following information shows what the district needs to report on the ASBR.

Paying agent fees, fees charged by the financial institution responsible for making the payments of principal and interest on the district's outstanding bonds, are paid from the Debt Service Fund. Other fees such as the bond attorney costs, costs of bond sales, registration fees, bond printing, and other costs associated with issuing bonds may be paid from the General (Incidental) Fund or from refunding bond proceeds from the Debt Service Fund per Section 108.140, RSMo.

**Current or Defeased Refunding of Bonds**

Assumptions:

|  |                |
|--|----------------|
| New Issue  | \$3,090,000.00 |
| Old Issue Balance  | \$3,100,000.00 |
| Amount of District Contribution                            | \$400,700.63   |
| Accrued Interest (Paid to the District on Defeased Issues) | \$10,493.12    |
| Cost of Issuance   | \$61,800.00    |

Two wire transfers occur on the settlement date:

- Accrued interest is sent to the district in the amount of \$10,493.12.
- Net proceeds from the new issue are sent to the escrow account (new issue minus costs of issuance) in the amount of \$3,028,200.00.

The district then sends a check to the escrow account to fully defease the old issue:

|                     |   |
|---------------------|---|
| \$ 61,800.00        | Costs of Issuance (from General Fund or Debt Service Fund) <sup>1</sup> |
| + 10,000.00         | Principal Difference in the Old and New Issues (From Debt Service Fund) |
| <u>+ 328,900.63</u> | Future Interest Payments (From Debt Service Fund) <sup>2</sup>          |
| \$ 400,700.63       | Total District Contribution   |

**ASBR Transactions for Current or Defeased Refunding Bonds**

Part II - Revenue Summary in the **Debt Service Fund**:

|      |                         |              |
|------|-------------------------|--------------|
| 5691 | Refunding Bonds         | 3,090,000.00 |
| 5141 | Earnings on Investments | 10,493.12    |

Part III - B - Expenditures

|           |                         |                           |
|-----------|-------------------------|---------------------------|
| 5111-6611 | Principal               | \$3,100,000.00            |
| 5211-6621 | Interest                | <sup>1</sup> \$328,900.63 |
| 5311-6631 | Other (Fin. Fees, Etc.) | <sup>2</sup> \$61,800.00  |

Part IV, Long and Short Term Debt - General Obligation Bonds

|      |                             |                |
|------|-----------------------------|----------------|
| 8001 | Balance, Beginning of Year  | \$3,100,000.00 |
| 8002 | Amount Borrowed During Year | \$3,090,000.00 |
| 8003 | Amount Repaid During Year   | \$3,100,000.00 |
| 8004 | Balance, End of Year        | \$3,090,000.00 |
| 8005 | Interest Paid During Year   | \$328,900.63   |

The defeased bonds are no longer on the district’s books. Line 8003 shows that the refunded bonds (old bonds) have been paid. The money in the escrow account is not listed in fund balances.

<sup>2</sup> Calculation of 5210 - 6621 Interest

|                                      |                         |
|--------------------------------------|-------------------------|
| New Issue                            | \$3,090,000.00          |
| Cost of Issuance                     | <u>\$61,800.00</u>      |
| Net Amount Received from New Issue   | \$3,028,200.00          |
| Plus Amount of District Contribution | \$400,700.63            |
| Minus Old Issue                      | <u>(\$3,100,000.00)</u> |
| Interest Expense                     | \$328,900.63            |

<sup>1</sup> Expenditures for paying agent fees are paid for from the Debt Service Fund. Other fees such as bond attorney costs, financial advisor fees, underwriter fees, bond rating fees, SAO registration fees, bond printing, and other costs associated with issuing bonds may be paid from the **General (Incidental) Fund** or from refunding bond proceeds from the **Debt Service Fund** per Section 108.140, RSMo if the bond transaction is a refunding of existing bonds.

**Current or Defeased Refunding of Bonds - Journal Entries**

Entries to record the issuance of the new bonds:

| <u>Date</u> | <u>General Long Term Debt Account Group Entry</u>   | <u>A/C No.</u> | <u>Debit</u>   | <u>Credit</u>  |
|-------------|---|----------------|----------------|----------------|
| 8/1/xx      | Amount to be Provided for Payment of Bond Principal | 1611           | \$3,090,000.00 |                |
|             | Amount Available for Payment of Accrued Interest    | 1631           | \$10,493.12    |                |
|             | Bonds Payable                                       | 2711           |                | \$3,090,000.00 |
|             | Accrued Bond Interest Payable                       | 2142           |                | \$10,493.12    |

The Amount to be Provided for Payment of Bonds (GL 1611) and Bonds Payable (GL 2711) accounts will be reduced by the amount of principal paid on the payment date, through a reversing entry. The amount available for Payment of Accrued Interest (GL 1630) and Accrued Bond Interest Payable (GL 2142) will be reversed at the time of the first interest payment subsequent to the bond issuance.

*When recording entries to an Escrow Cash Account please make sure to use an extension so all entries and crossover balance may remain in its own account and not interfere with an existing Escrow Cash account.*

General Journal entries to record the amount of monies received for accrued interest upon issuance of the bonds:

| <u>Date</u> | <u>Debt Service Fund Entry</u> | <u>A/C No.</u> | <u>Debit</u> | <u>Credit</u> |
|-------------|--------------------------------|----------------|--------------|---------------|
| 8/1/xx      | Escrow Cash                    | 1151           | \$10,493.12  |               |
|             | Accrued Interest on Bonds Sold | 5142           |              | \$10,493.12   |

General Journal entries to record the issuance of the bonds:

| <u>Date</u> | <u>Debt Service Fund Entry</u> | <u>A/C No.</u> | <u>Debit</u>   | <u>Credit</u>  |
|-------------|--------------------------------|----------------|----------------|----------------|
| 8/1/xx      | Escrow Cash                    | 1151           | \$3,090,000.00 |                |
|             | Refunding Bonds                | 5692           |                | \$3,090,000.00 |

General Journal entries to record the district contribution to the escrow account that is required to fund the future interest payments to fully defease the old bond issue:

| <u>Date</u> | <u>Debt Service Fund Entry</u> | <u>A/C No.</u> | <u>Debit</u> | <u>Credit</u> |
|-------------|--------------------------------|----------------|--------------|---------------|
| 8/1/xx      | Escrow Cash                    | 1151           | \$328,900.63 |               |
|             | Cash                           | 1111           |              | \$328,900.63  |

General Journal entries to record the payment of bond issuance costs:

| <u>Date</u> | <u>General (Incidental) Fund Entry</u> | <u>A/C No.</u> | <u>Debit</u> | <u>Credit</u> |
|-------------|--|----------------|--------------|---------------|
| 8/1/xx      | Fees - Bonded Indebtedness             | 5311-6631      | \$61,800.00  |               |
|             | Cash                                   | 1111           |              | \$61,800.00   |

**or**

| <u>Date</u> | <u>Debt Service Fund Entry</u> | <u>A/C No.</u> | <u>Debit</u> | <u>Credit</u> |
|-------------|--------------------------------|----------------|--------------|---------------|
| 8/1/xx      | Fees - Bonded Indebtedness     | 5311-<br>6631  | \$61,800.00  |               |
|             | Escrow Cash                    | 1151           |              | \$61,800.00   |

General Journal entries to record the payment of principal on the refunded bond issue:

| <u>Date</u> | <u>Debt Service Fund Entry</u>  | <u>A/C No.</u> | <u>Debit</u>   | <u>Credit</u>  |
|-------------|---------------------------------|----------------|----------------|----------------|
| 8/1/xx      | Principal - Bonded Indebtedness | 5111-<br>6611  | \$3,100,000.00 |                |
|             | Escrow Cash                     | 1151           |                | \$3,100,000.00 |

| <u>Date</u> | <u>General Long-Term Debt Account Group Entry</u> | <u>A/C No.</u> | <u>Debit</u>   | <u>Credit</u>  |
|-------------|---|----------------|----------------|----------------|
| 8/1/xx      | Bonds Payable                                     | 2711           | \$3,100,000.00 |                |
|             | Amount to be Provided for Payment of Bonds        | 1611           |                | \$3,100,000.00 |

**Crossover Refunding of Bonds**

When a crossover refunding occurs, the district continues to make the bond principal and interest payments on the old issue and the escrow account pays the interest on the new issue until the crossover date. Therefore, it is necessary in this example to reflect two separate types of transactions - issuance of the refunding bonds and payments made on the old issue. The majority of crossover refundings are partial refundings of old bonds rather than a refunding of the full issue.

Assumptions:

First Transaction:

|   |                |
|---|----------------|
| New Issue   | \$1,690,000.00 |
| Balance Outstanding on Old Issue (Including Callable Bonds of \$1,690,000.00) | \$2,500,000.00 |
| Accrued Interest (Paid to Escrow Account on Crossover Issues)                 | \$2,572.01     |
| Cost of Issuance  | \$33,800.00    |

There may be some instances where the district would need to add additional monies to the escrow account from the Debt Service Fund to make sure the escrow account can fully pay interest payments as they come due. Please consult with School Finance and your bond counsel if this should happen.

Second Transaction:

|                                   |              |
|-----------------------------------|--------------|
| Current Year Payment on Old Issue | \$70,000.00  |
| Interest Payment on Old Issue     | \$111,155.00 |

### ASBR Reporting for Crossover Refunding of Bonds - First Transaction

Part I - Detail of Part I, 3412, Restricted Fund Balance of Debt Service Fund

|      |                                       |                |
|------|---------------------------------------|----------------|
| 1005 | Escrow Amount for Crossover Refunding | \$1,692,572.01 |
|------|---------------------------------------|----------------|

Part II - Revenue Summary in the **Debt Service Fund**

|      |                         |                |
|------|-------------------------|----------------|
| 5692 | Refunding Bonds         | \$1,690,000.00 |
| 5141 | Earnings on Investments | \$2,572.01     |

Part III - Expenditures

|           |  |             |
|-----------|--|-------------|
| 5311-6631 | Other (Fin. Fees, Etc.) (see footnote below) | \$33,800.00 |
|-----------|--|-------------|

### ASBR Reporting for Crossover Refunding of Bonds - Second Transaction

Part I, Restricted Fund Balance By Fund

|      |   |                |
|------|---|----------------|
| 1005 | Escrow Amount for Crossover Refunding (Debt Service Fund) | \$1,692,572.01 |
|------|---|----------------|

Part III-B-Expenditures

|           |                                 |              |
|-----------|---------------------------------|--------------|
| 5110-6611 | Principal - Bonded Indebtedness | \$70,000.00  |
| 5210-6621 | Interest - Bonded Indebtedness  | \$111,155.00 |

**The two transactions together should appear as follows:**

Part IV, Long and Short Term Debt - General Obligation Bonds

|      |                             |                |
|------|-----------------------------|----------------|
| 8001 | Balance, Beginning of Year  | \$2,500,000.00 |
| 8002 | Amount Borrowed During Year | \$1,690,000.00 |
| 8003 | Amount Repaid During Year   | \$70,000.00    |
| 8004 | Balance, End of Year        | \$4,120,000.00 |
| 8005 | Interest Paid During Year   | \$111,155.00   |

### Escrow Account Interest Income and Interest Expense

The money in the escrow account will earn the same interest rate being charged for the bonds. The escrow account will receive interest income equal to interest expense for the bonds. This transaction should be reported on the ASBR as follows:

Part II - Revenue Summary in the **Debt Service Fund**

|      |                         |             |
|------|-------------------------|-------------|
| 5141 | Earnings on Investments | \$84,500.00 |
|------|-------------------------|-------------|

Part III B - Expenditures

|           |                                |             |
|-----------|--------------------------------|-------------|
| 5211-6621 | Interest - Bonded Indebtedness | \$84,500.00 |
|-----------|--------------------------------|-------------|

**Crossover Refunding of Bonds - Journal Entries**

Entries to record the new bond issue:

| <u>Date</u> | <u>General Long-Term Debt Account Group Entry</u> | <u>A/C No.</u> | <u>Debit</u>   | <u>Credit</u>  |
|-------------|---|----------------|----------------|----------------|
| 7/1/xx      | Amount to be Provided for Payment of Bonds        | 1611           | \$1,690,000.00 |                |
|             | Amount Available for Payment of Accrued Interest  | 1631           | \$2,572.01     |                |
|             | Bonds Payable                                     | 2711           |                | \$1,690,000.00 |
|             | Accrued Bond Interest Payable                     | 2142           |                | \$2,572.01     |

The Amount to be Provided for Payment of Bonds (GL 1611) and Bonds Payable (GL 2711) accounts will be reduced by the amount of principal paid on the payment date, through a reversing entry. The amount available for Payment of Accrued Interest (GL 1630) and Accrued Bond Interest Payable (GL 2142) will be reversed at the time of the first interest payment subsequent to the bond issuance.

*When recording entries to an Escrow Cash Account please make sure to use an extension so all entries and crossover balance may remain in its own account and not interfere with an existing Escrow Cash account.*

General Journal entries to record the amount of monies received for accrued interest upon issuance of the bonds:

|                                |      |            |            |
|--------------------------------|------|------------|------------|
| Escrowed Cash                  | 1151 | \$2,572.01 |            |
| Accrued Interest on Bonds Sold | 5142 |            | \$2,572.01 |

General Journal entries to record the initial issuance of the refunding of the bonds:

| <u>Date</u> | <u>Debt Service Fund Entry</u> | <u>A/C No.</u> | <u>Debit</u>   | <u>Credit</u>  |
|-------------|--------------------------------|----------------|----------------|----------------|
| 7/1/xx      | Escrowed Cash                  | 1151           | \$1,690,000.00 |                |
|             | Refunding Bonds                | 5692           |                | \$1,690,000.00 |

General Journal entries to record the payment of bond issuance costs:

| <u>Date</u> | <u>General (Incidental) Fund Entry</u> | <u>A/C No.</u> | <u>Debit</u> | <u>Credit</u> |
|-------------|--|----------------|--------------|---------------|
| 8/1/xx      | Fees - Bonded Indebtedness             | 5311-6631      | \$61,800.00  |               |
|             | Cash                                   | 1111           |              | \$61,800.00   |

**or**

| <u>Date</u> | <u>Debt Service Fund Entry</u> | <u>A/C No.</u> | <u>Debit</u> | <u>Credit</u> |
|-------------|--------------------------------|----------------|--------------|---------------|
| 8/1/xx      | Fees - Bonded Indebtedness     | 5311-6631      | \$61,800.00  |               |
|             | Escrow Cash                    | 1151           |              | \$61,800.00   |

General Journal entries to record the earnings on escrow account:

| <u>Date</u> | <u>Debt Service Fund Entry</u>   | <u>A/C No.</u> | <u>Debit</u> | <u>Credit</u> |
|-------------|----------------------------------|----------------|--------------|---------------|
| 8/30/xx     | Escrow Cash                      | 1151           | \$84,500.00  |               |
|             | Earnings From Temporary Deposits | 5141           |              | \$84,500.00   |

General Journal entries to record the payment of interest on new bond issue (until crossover date):

| <u>Date</u> | <u>Debt Service Fund Entry</u> | <u>A/C No.</u> | <u>Debit</u> | <u>Credit</u> |
|-------------|--------------------------------|----------------|--------------|---------------|
| 8/30/xx     | Interest - Bonded Indebtedness | 5211-6621      | \$84,500.00  |               |
|             | Escrow Cash                    | 1151           |              | \$84,500.00   |

General Journal entries to record the payment of the refunded bond issue at the crossover date:

| <u>Date</u> | <u>Debt Service Fund Entry</u>  | <u>A/C No.</u> | <u>Debit</u>   | <u>Credit</u>  |
|-------------|---------------------------------|----------------|----------------|----------------|
| 3/1/xx      | Principal - Bonded Indebtedness | 5111-6611      | \$2,500,000.00 |                |
|             | Escrow Cash                     | 1151           |                | \$2,500,000.00 |

| <u>Date</u> | <u>General Long-Term Debt Account Group Entry</u> | <u>A/C No.</u> | <u>Debit</u>   | <u>Credit</u>  |
|-------------|---|----------------|----------------|----------------|
| 3/1/xx      | Bonds Payable                                     | 2711           | \$2,500,000.00 |                |
|             | Amount to be Provided for Payment of Bonds        | 1611           |                | \$2,500,000.00 |

**Refinancing of Bonds and/or Lease Purchases**

Districts may refinance existing debt for several reasons: saving money, restructuring the repayment schedule or removing restrictive bond covenants. However, a district attempting to save money by refinancing debt must look beyond the reported gross savings over the life of the debt. Particularly, the district needs to know what the reported gross savings over the term of the debt are in present day dollars, because the actual value of money decreases over time. This concept is referred to as “net present value”.

The net present value of gross savings for any given refinancing of debt should be calculated after all refinancing costs and district cash contributions have been deducted from gross savings in order to evaluate the true economic benefit to the district. Net present value is directly affected by the discount rate used in the calculation. An administrator should ask how the “discount rate” was determined. Discounted net present value is very sensitive to variations in the discount rate used in the calculation. If some standard method of determining the discount rate is not used, the calculation of net present value becomes suspect. The discount rate is typically the “reinvestment bond yield” on the refinancing issue.

A district contemplating a refinancing **to save money** should request data as shown in the example below to determine if there is in fact an economic gain to the district resulting from the refinancing. While some sources would indicate any positive net present value provides an economic gain and should be considered, the Department staff would suggest that a net present value savings of at least 2% (preferably 3-4%) of refunded par value should be the district’s goal.

**Par Value of Refunded Bonds: \$2,900,000**  
**Average Interest Rate (Bond Yield): 4.720070%**  
**Discount Rate Used to Calculate Net Present Value: 4.72%**

| <b>Calculation of Savings</b>          | <b>Gross Savings</b>         | <b>Net Present Value</b>   |
|--|------------------------------|----------------------------|
| Gross Savings                          | \$324,637.50                 | \$181,437.35               |
| Less: Costs of Issuance                | \$(58,000.00)                | \$(58,000.00)              |
| Less: Add'l Issuer Cash Contribution   | <u>\$ (9,604.34)</u>         | <u>\$ (9,604.34)</u>       |
| <b>NET Savings</b>                     | <b><u>\$257,033.16</u></b>   | <b><u>\$113,833.01</u></b> |
| Net Present Value Savings              | \$113,833.01                 |                            |
| NPV Savings as % of Par Value Refunded | (\$113,833.01 ÷ \$2,900,000) | 3.925%                     |

As shown in the example above, the gross savings on the bond (\$324,637.50) is considerable higher than the net present value after all costs and contributions have been accounted for (\$113,833.01). The gross savings figure does not reflect the true benefits of the refunding and should not be relied upon in evaluating whether or not the refunding should be undertaken. Districts should ask their bond professionals to provide a table similar to the one shown above in order to evaluate the actual savings to the district.

This page is reserved for future use.

# Guaranteed Energy Savings Performance Contracts



## Guaranteed Energy Savings Performance Contracts

Pursuant to Section 8.231, RSMo, a guaranteed energy savings performance contract is a contract for the implementation of one or more energy saving measures that may be applied to an existing school district facility. The contract shall provide that all payments, except obligations on termination of the contract before its expiration, are to be made over time and the energy cost savings are guaranteed to the extent necessary to make payments for the system. The contractor/vendor must certify to the school district an energy savings equal to or greater than the cost of procurement/installation. Principal payments may not be made until a corresponding amount of energy and energy related operating savings has been realized by the school district.

A school district shall not enter into a guaranteed energy cost savings contract without first soliciting competitive proposals as required by Section 8.231.2, RSMo.

### Terms Relating to Guaranteed Energy Savings Performance Contracts:

Per Section 8.231, RSMo, an energy cost savings measure is defined as a facility alteration designed to reduce energy consumption or operating costs, and may include one or more of the following:

- Insulation of the building structure or systems within the building.
- Storm windows or doors, caulking or weather stripping, multiglazed windows or doors, heat absorbing or heat reflective glazed and coated window or door systems, additional glazing reductions in glass area, or other window and door system modifications that reduce energy consumption.
- Automated or computerized energy control system.
- Heating, ventilating or air conditioning system modifications or replacements to existing systems. (Cannot install air conditioning in a building that previously did not have air conditioning since this would not generate or result in any energy or operational savings.)
- Replacement or modification of lighting fixtures to increase the energy efficiency of the lighting system without increasing the overall illumination of a facility, unless an increase in illumination is necessary to conform to the applicable state or local building code for the lighting system after the proposed modifications are made.
- Indoor air quality improvements to increase air quality that conforms to the applicable state or local building code requirements.
- Energy recovery systems.
- Cogeneration systems that produce steam or forms of energy such as heat, as well as electricity for use primarily within a building or complex of buildings.
- Any life safety measures that provide long-term operating cost reductions and are in compliance with state and local codes.
- Building operation programs that reduce the operating costs.
- Any life safety measure related to compliance with the Americans with Disabilities Act, 42 U.S.C. Section 12101, et seq., that provide long-term operating cost reductions and are in compliance with state and local codes.

Operational savings as defined in Section 8.231, RSMo, is “expenses eliminated and future replacement expenditures avoided as a result of new equipment installed or services performed.” Caution should be exercised when accepting vendor designated amounts declared as operational savings or “maintenance offsets”, since operational savings may be used to determine interfund transfers pursuant to Section 165.011, RSMo. Extraordinary operational savings/maintenance offsets may lead to future transfer or program restrictions.

A qualified provider as defined in Section 8.231, RSMo, is “a person or business experienced in the design, implementation, and installation of energy cost savings measures.” The governmental unit shall award a contract to the qualified provider that provides the lowest and best proposal which meets the needs of the school district if it finds that the amount it would spend on the energy cost savings measures recommended in the proposal would not exceed the amount of energy or operational savings, or both, within a fifteen-year period from the date installation is complete, if the recommendations in the proposal are followed.

### Requirements of a Guaranteed Energy Savings Performance Contract (Per Section 8.231, RSMo.)

1. The guaranteed energy savings performance contract shall include a written guarantee from the qualified provider that either the energy or operational cost savings, or both, will meet or exceed the costs of the energy cost savings measures, adjusted for inflation, within fifteen years. **The qualified provider shall reimburse the school district for any shortfall of guaranteed energy cost savings on an annual basis.** The guaranteed energy cost savings contract may provide for payments over a period of time, not to exceed fifteen years.
2. A guaranteed energy savings performance contract should be written for each individual project. Each energy performance contract must be entered into after a request for proposal (RFP) process in which all vendors have the opportunity to bid on the project. It is not appropriate to add projects in succeeding years to the initial performance contract. Additional guaranteed energy cost savings contract projects should be considered new projects, utilizing a separate contract with new guarantees of energy savings by the vendor's engineering staff.
3. Guaranteed energy savings performance contract documentation (contract and engineering study indicating energy savings) should be maintained by the district during the contract period in order to maintain eligibility to make the annual interfund transfer from the General (Incidental) Fund to the Capital Projects Fund for operational savings/maintenance off-sets as specified in the vendor's engineering study.
4. The school district shall include amounts payable under guaranteed energy savings performance contracts during that fiscal year in its annual budget if the annual energy savings is actually realized per the vendor's engineering study.
5. A school district may utilize installment payment contracts or lease purchase agreements to fund the appropriate energy savings improvements.

### Lease Purchase/Installment Contract

A school district has three financing methods available when entering into a guaranteed energy savings performance contract.

**Method one** is the lease purchase authority found in Section 177.088, RSMo, which requires a school district to enter into an agreement with a financing entity.

**Method two** is the lease purchase authority found in Section 177.082, RSMo, which allows a school district to enter into a lease purchase agreement directly with a vendor. Neither of these methods requires a tax levy to be established in the Capital Projects Fund. Lease purchases may be used for the acquisition of appropriate energy savings equipment for the use of the educational institution. Title to the equipment remains with the vendor until termination of the contract.

**Method three** is an "installment contract" and is allowed only for guaranteed energy savings performance contracts. This provision allows a district to enter into an installment agreement wherein the district takes title to the energy savings equipment and makes payments to a vendor over an agreed upon timeframe.

Suggested journal entries are as follows:

### Lease Purchase Entries

General Journal entries to record a yearly lease purchase payment of a capitalized lease purchase:

| <u>Date</u> | <u>Capital Projects Fund Entry</u>                           | <u>A/C No.</u> | <u>Debit</u> | <u>Credit</u> |
|-------------|--|----------------|--------------|---------------|
| 7/1/xx      | Building Acquisition, Construction, and Improvement Services | 4051 - 6521    | \$43,000     |               |
|             | Interest - Lease Purchase Agreements                         | 5231 - 6623    | \$12,500     |               |
|             | Cash in Banks  | 1111           |              | \$55,500      |

General Journal entries to record a yearly lease purchase payment of a lease purchase (not capitalized):

| <u>Date</u> | <u>Capital Projects Fund Entry</u>   | <u>A/C No.</u> | <u>Debit</u> | <u>Credit</u> |
|-------------|--------------------------------------|----------------|--------------|---------------|
| 7/1/xx      | Principal - Lease Purchase Agreement | 5131 - 6613    | \$43,000     |               |
|             | Interest - Lease Purchase Agreement  | 5231 - 6623    | \$12,500     |               |
|             | Cash in Banks                        | 1111           |              | \$55,500      |

### Installment Contract Entries

General Journal entries to record a yearly installment contract payment of a capitalized installment contract:

| <u>Date</u> | <u>Capital Projects Fund Entry</u>                           | <u>A/C No.</u> | <u>Debit</u> | <u>Credit</u> |
|-------------|--|----------------|--------------|---------------|
| 7/1/xx      | Building Acquisition, Construction, and Improvement Services | 4051 - 6521    | \$43,000     |               |
|             | Interest - Short Term Loans                                  | 5221 - 6622    | \$12,500     |               |
|             | Fees - Short Term Loans                                      | 5321 - 6622    | \$3,000      |               |
|             | Cash in Banks  | 1111           |              | \$58,500      |

General Journal entries to record a yearly installment contract payment (not capitalized):

| <u>Date</u> | <u>Capital Projects Fund Entry</u> | <u>A/C No.</u> | <u>Debit</u> | <u>Credit</u> |
|-------------|------------------------------------|----------------|--------------|---------------|
| 7/1/xx      | Principal - Short Term Loans       | 5121 - 6612    | \$43,000     |               |
|             | Interest - Short Term Loans        | 5221 - 6622    | \$12,500     |               |
|             | Fees - Short Term Loans            | 5321 - 6622    | \$3,000      |               |
|             | Cash in Banks                      | 1111           |              | \$58,500      |

This page is reserved for future use.

# Indirect Cost Rates For Federal Grants



## Indirect Cost Rates - Federal Government

An indirect cost rate is a means of determining in a reasonable manner the percentage of allowable general administrative expense (indirect costs) that each federal grant should bear. Generally, an indirect cost rate is the ratio of total indirect costs to total direct costs, based on the LEA's actual expenditures, exclusive of any extraordinary or distorting expenditures (e.g., capital outlay and major subcontracts).

The indirect costs of a program are costs that have been incurred for common or joint purposes (i.e. operation and maintenance of buildings, utility costs, and some salaries). Indirect costs benefit more than one cost area or grant and cannot be readily identified with a particular cost area or grant. Executive administration costs (object code 2321) such as superintendent's salary and costs relating to that office, as well as any assistant superintendent's costs, are generally excluded from the total. School districts should ensure that expenditures are properly recorded to either executive administration or business central services. If expenditures are misclassified and recorded in executive administration instead of business central services, the improper recording will affect the indirect cost rate calculation.

There are two rates calculated, Unrestricted and Restricted. These rates are calculated annually by the Department of Elementary and Secondary Education according to agreements between the Department and the U.S. Department of Education and sent to each school district.

### Unrestricted Rate

The unrestricted rate is calculated first and then adjusted to the restricted rate. The un-restricted rate is used for all federal programs without limitations or indirect costs. Expenditures for the office of the superintendent in addition to operations and maintenance of the plant are classified as indirect costs when calculating an unrestricted rate. The unrestricted rate may include those costs relating to general administration and direction of the local government. These costs include audit/management services, legal services, executive administration (including the costs of the superintendent and the assistant/associate superintendents), operation of the plant, and business services.

### Restricted Rate

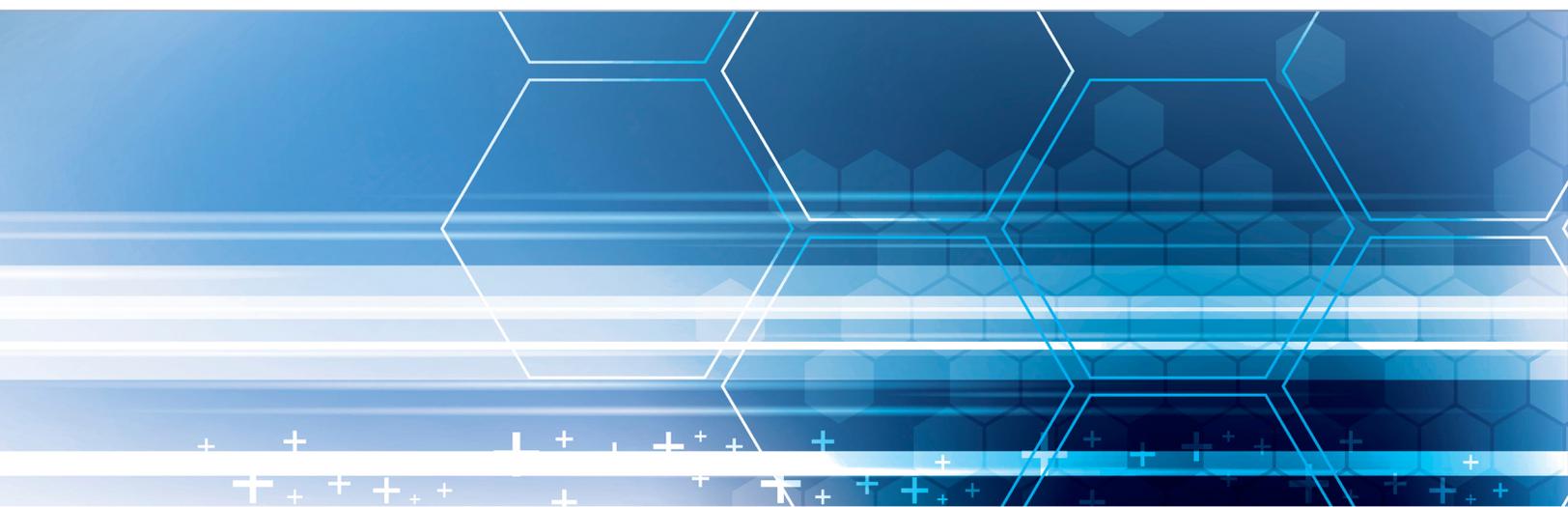
The restricted rate is used for all federal programs with a statutory requirement prohibiting the use of federal funds to supplant non-federal funds. The restricted rate may only include the general administration costs associated with audit/management services, legal services, and business services. The superintendent, assistant/associate superintendents', the superintendent's secretary, and expenses directly related to the operation of the superintendent's immediate offices, as well as operation of the plant costs are considered disallowed costs for the restricted rate and are not included in the restricted rate calculation.

### Recovery of Indirect Costs

Recovery of indirect costs is subject to availability of funds, statutory or administrative restrictions, and the extent that direct costs were incurred. The approved rates are applied to project direct expenditures, class/object codes 6100 through 6400, to determine the allowance for indirect cost for overhead expenditures. When the receipt of indirect cost is recorded in the General (Incidental) Fund from the federal program, these funds lose their identity as federal revenue. The district can add it to all other general revenues, carry it over in the General (Incidental) Fund balance, or appropriate it to be expended as a general operating (non-categorical) expense.

This page is reserved for future use.

# Lease Purchase





## A Lease Purchases

A lease purchase is an agreement entered into by the school district to acquire a capital item without paying the full purchase cost all at once. When considering a lease purchase it is important to understand the distinction between a lease purchase agreement and a simple lease/rental contract because of the potential adverse financial impact that could occur to the district if the payments are treated incorrectly in the district's accounting system.

Distinction between lease purchase and lease/rental:

Lease Purchase:

- Agreement between the school board and a financing entity (trustee).
- Financing entity (trustee) retains title to the property until the district completes the lease purchase payments.
- All cash for the capital item is acquired, managed, and expended by the financing entity (trustee). The only entries on the district's books reflects the annual principal, interest, and fees. District does not receive or receipt cash associated with a Section 177.088, RSMo, lease purchase into the district's accounts.
- Principal and interest is paid from the Capital Projects Fund.

Lease/Rental:

- District **will NOT take title** to property.
- If district buys the item at the end of the rental and takes or assumes title to real property, the full amount expended for the real property will be deducted from the state aid payment in the year following the transfer of title to the district (per Section 177.088.11, RSMo).
- Lease/rental amount is paid from the General (Incidental) Fund.
- Included in current operating costs.

**A school district has two lease purchase provisions available:** Sections 177.082 and 177.088, RSMo.

### Section 177.082 Lease Purchases (Provision One):

The lease purchase authorization in Section 177.082, RSMo, provides for lease purchases for apparatus, equipment (including school buses), and furnishings, directly with a vendor. This authorization does not provide for the purchase of buildings (including mobile classroom units) or land.

### Section 177.088 Lease Purchases (Provision Two):

The lease purchase authorization in Section 177.088, RSMo, requires a district to enter into an agreement with a financing entity (trustee). This statutory authority is the only means a district has to enter into a lease purchase agreement for buildings (including mobile classroom units) or land.

## Fund Transfer Options For Lease Purchase Payments

**If a district has Section 177.088 RSMo, lease purchases entered into prior to January 1, 1997 (“grandfathered” lease purchases),** the transfer authority is as follows:

A district in compliance with Section 163.031.6, RSMo, may use the Lease Purchase prior to 01/01/1997 transfer to transfer amounts from the General (Incidental) Fund to the Capital Projects Fund necessary to cover current year obligations for lease-purchase obligations entered into prior to January 1, 1997.

**If a district has Section 177.088, RSMo, lease purchases entered into after January 1, 1997,** and if the district is in compliance with Section 163.031.6, RSMo, the district may use the \$162,326 or 7% x SAT x WADA transfer to transfer amounts from the General (Incidental) Fund to the Capital Projects Fund necessary to cover current year obligations for lease-purchase obligations entered into after to January 1, 1997.

When a district enters into a lease purchase with a financing entity (trustee) to acquire a new building, the financing entity (trustee) will actually build and own the building for the term of the lease purchase agreement. All construction expenditures will be made by the financing entity (trustee). The school district ***will not pay any construction costs***. The local board of education may review and approve all appropriate construction invoices/bills prior to the financing entity (trustee) paying such invoices/bills. This reduces the possibility of doubling or inflating expenditures for the school district. ***Construction expenditures will not be reflected in the school district’s accounting records.***

The method of accounting for Section 177.088, RSMo, lease purchase costs are the same regardless of the district’s basis of accounting (cash or modified accrual). There has been some discussion suggesting that a different method should be used to account for a capital lease purchase for real property depending on the cash or accrual designation. While this distinction may be important for purposes of preparing audit financial statements, in actual practice, state law does not differentiate between the cash basis or modified accrual basis of accounting regarding the purchase of real property through a Section 177.088, RSMo, lease purchase agreement.

The provision authorized in Section 177.088.3, RSMo, to lease from a financing entity (trustee) those buildings, equipment, furnishings, etc., acquired or constructed infers the district is receiving the asset from the financing entity (trustee). There does not appear to be a statutory allowance for the district to simply borrow money from the financing entity (trustee) (i.e., receipt money into the district for use in construction) and then proceed to expend those funds to construct a facility for the financing entity (trustee) regardless of the district’s basis of accounting. The statutory inference is that the financing entity (trustee) constructs and owns the facility. This concept is emphasized in Section 177.088.6, RSMo, which references debt obligations secured by a mortgage pledge or deed of trust stating, “...such bonds, notes and other obligations issued shall not be the debt of the educational institution and the educational institution shall not be liable thereon ... shall not constitute an indebtedness of the educational institution within the meaning of any constitutional or statutory debt limitation or restriction.”

To summarize, regardless of possible governmental requirements relating to reporting of capital lease purchase obligations on the district’s independent audit financial statements, the actual journal transactions completed by the district are the same regardless of whether the district is on cash or modified accrual basis of accounting. The process of booking fair market value of the asset and the net present value of the lease purchase payments become, for all practical purposes, an audit function which should be discussed with the district’s auditor. Remember, the only expenditures recorded on the school district’s books for a lease purchase contract for construction of a building are the annual lease purchase principal, interest, and fees paid to the financing entity (trustee). Principal expenditures are recorded in the Capital Projects Fund, Function Code 5131 - Principal on Lease Purchase Agreements or if capitalized to 4051 - Facilities Acquisition and Construction, Expenditure Object Code 6613 - Principal Lease Purchase Agreements or if capitalized 6521- Buildings. Interest costs are recorded in the Capital Projects Fund, Function Code 5231, Expenditure Object Code 6623. Appropriate fees should be recorded in Function Code 5331, Expenditure Object Code 6633.

Payments may be required in advance of the actual construction for costs associated with contractor or architect fees. The district may make these up front expenditures with the financing entity (trustee) reimbursing the district by check payment. The reimbursement, if received during the same fiscal year, would be recorded as a credit against the expenditure account, thereby reversing the initial expenditure transaction already on the books.

General Journal entries to record the yearly lease purchase payment on a capitalized lease purchase:

General Journal entries to record the receipt of various revenues (if a district sets a levy in the Capital Projects Fund):

| <u>Date</u> | <u>Capital Projects Fund Entry</u>        | <u>A/C No.</u> | <u>Debit</u> | <u>Credit</u> |
|-------------|---|----------------|--------------|---------------|
| 7/1/xx      | Cash in Banks                             | 1111           | \$60,000     |               |
|             | Taxes, Current Ad Valorem                 | 5111           |              | \$36,000      |
|             | Taxes, Delinquent Ad Valorem              | 5112           |              | \$13,000      |
|             | State Assessed Railroad and Utility Taxes | 5221           |              | \$11,000      |

General Journal entries to record the yearly principal and interest payments on a capitalized lease purchase for a building project:

| <u>Date</u> | <u>Capital Projects Fund Entry</u>  | <u>A/C No.</u> | <u>Debit</u> | <u>Credit</u> |
|-------------|---|----------------|--------------|---------------|
| 7/1/xx      | Expenditures - Building Acquisition,<br>Construction, and Improvement - Principal | 4051 - 6521    | \$43,000     |               |
|             | Interest - Lease Purchase Agreements  | 5231 - 6623    | \$12,500     |               |
|             | Cash in Banks   | 1111           |              | \$55,500      |

General Journal entries to record the yearly principal and interest payments on a capitalized lease purchase for equipment:

| <u>Date</u> | <u>Capital Projects Fund Entry</u>   | <u>A/C No.</u> | <u>Debit</u> | <u>Credit</u> |
|-------------|--------------------------------------|----------------|--------------|---------------|
| 7/1/xx      | Equipment                            | *xxxx - 6541   | \$43,000     |               |
|             | Interest - Lease Purchase Agreements | 5231 - 6623    | \$12,500     |               |
|             | Cash in Banks                        | 1111           |              | \$55,500      |

\*Use appropriate function code.

General Journal entries to record the yearly lease purchase payment on a non-capitalized lease purchase:

| <u>Date</u> | <u>Capital Projects Fund Entry</u>    | <u>A/C No.</u> | <u>Debit</u> | <u>Credit</u> |
|-------------|---------------------------------------|----------------|--------------|---------------|
| 7/1/xx      | Principal - Lease Purchase Agreements | 5131 - 6613    | \$43,000     |               |
|             | Interest - Lease Purchase Agreements  | 5231 - 6623    | \$12,500     |               |
|             | Cash in Banks                         | 1111           |              | \$55,500      |

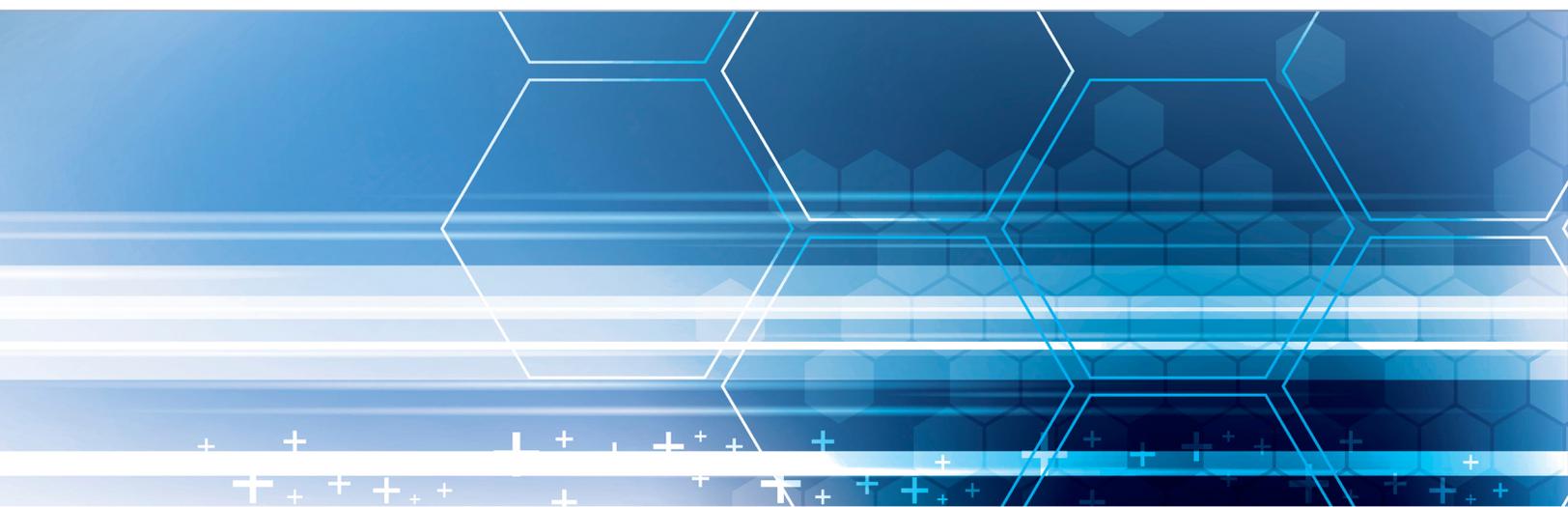
General Journal entries to record the yearly lease purchase payment on buses:

| <u>Date</u> | <u>Capital Projects Fund Entry</u>   | <u>A/C No.</u> | <u>Debit</u> | <u>Credit</u> |
|-------------|--|----------------|--------------|---------------|
| 7/1/xx      | District Operated Pupil Transportation Service/Pupil Transportation Vehicles - Buses | 2552 - 6552    | \$43,000     |               |
|             | Interest - Lease Purchase Agreements   | 5231 - 6623    | \$12,500     |               |
|             | Cash in Banks  | 1111           |              | \$55,500      |

**Section 177.088 Lease Purchases Refinancing**

The financing entity (trustee) is technically the entity refinancing the lease purchase thus there are ***no entries that will appear on the district's books for the refinancing.*** Part IV of the ASBR will contain the information regarding the refinancing of the lease purchase.

# Loans





**Loans - (Includes Tax Anticipation Notes, DNR Energy Loans)**

Loans that are to be repaid within a one-year period are considered short term loans. Short term loan proceeds are typically not recorded as revenue, but rather shown only in the general ledger since the loan is paid off within the same fiscal year. Tax anticipation notes which can occur in any fund and provide operating cash pending receipt of revenue are an example of such a loan available to school districts. Loans that extend beyond one fiscal year are treated different than short term loans as described above. A DNR energy loan is an example of a loan that typically extends over several fiscal years. In this case, loan proceeds are recorded as revenue and the principal payments are recorded as an expense. Below are examples of the entries needed for each type of loan available to a district:

**Example Entries to Record Tax Anticipation Notes and Repayment**

General Journal entries to record the receipt of Tax Anticipation Note proceeds:

| <u>Date</u> | <u>Description</u> | <u>A/C No.</u> | <u>Debit</u> | <u>Credit</u> |
|-------------|--------------------|----------------|--------------|---------------|
| 10/20/xx    | Cash in Banks      | 1111           | \$10,000     |               |
|             | Loans Payable      | 2121           |              | \$10,000      |

General Journal entries to record the repayment of the Tax Anticipation Note:

| <u>Date</u> | <u>Description</u>                        | <u>A/C No.</u> | <u>Debit</u> | <u>Credit</u> |
|-------------|---|----------------|--------------|---------------|
| 1/15/xx     | Loans Payable                             | 2121           | \$10,000     |               |
|             | Expenditures - Control (Interest on Loan) | 6031           | \$150        |               |
|             | Cash in Banks                             | 1111           |              | \$10,150      |

Subsidiary Ledger entry posted in the Budget Analysis Ledger would be:

| <u>Function</u> | <u>Object</u> | <u>Description</u> | <u>Amount</u> |
|-----------------|---------------|--------------------|---------------|
| 5220            | 6622          | Interest           | \$150         |
|                 |               | <b>Total</b>       | <b>\$150</b>  |

**Under no circumstances should short term loan proceeds be added to revenue or non-revenue receipts to increase the ending fund balance during an accounting period or at the end of the fiscal year.**

**Example Entries to Record DNR Energy Loans**

General Journal entries to record the receipt of DNR Energy Loan proceeds:

| <u>Date</u> | <u>Description</u>                         | <u>A/C No.</u> | <u>Debit</u> | <u>Credit</u> |
|-------------|--|----------------|--------------|---------------|
| 10/20/xx    | Amounts Available for the Payment of Loans | 1641           | \$10,000     |               |
|             | Loans Payable                              | 2121           |              | \$10,000      |

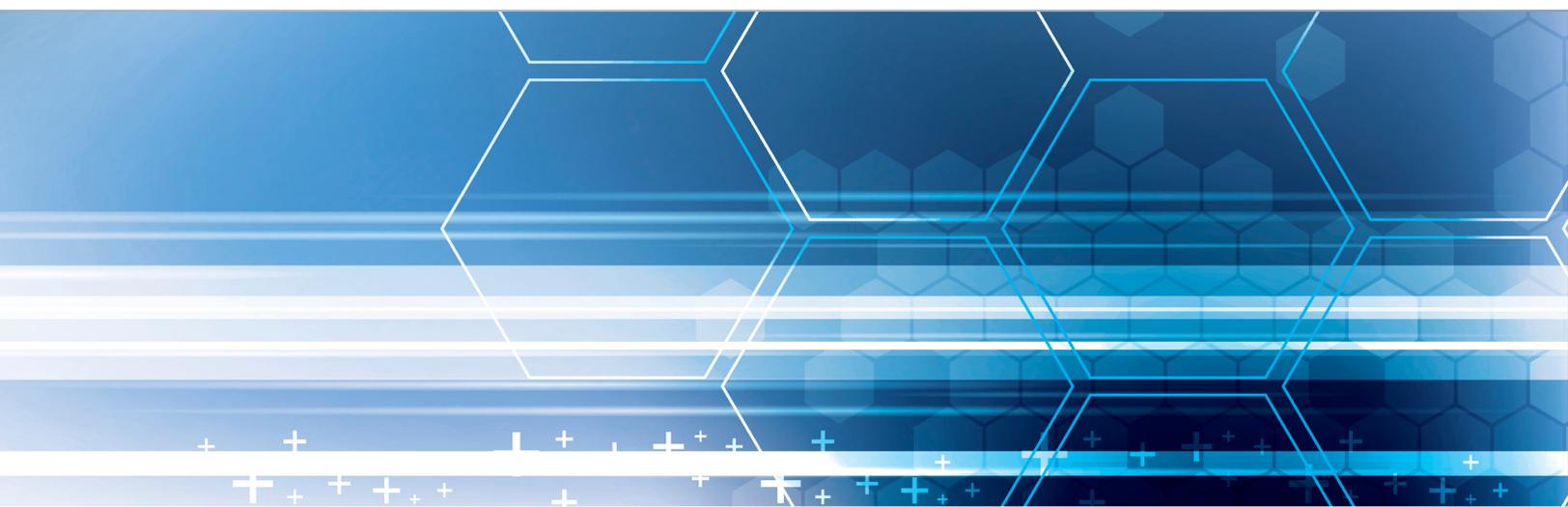
| <u>Date</u> | <u>Capital Projects Fund</u>                      | <u>A/C No.</u> | <u>Debit</u> | <u>Credit</u> |
|-------------|---|----------------|--------------|---------------|
| 10/20/xx    | Cash in Banks                                     | 1111           | \$10,000     |               |
|             | MO Department of Natural Resources Energy<br>Loan | 5366           |              | \$10,000      |

General Journal entries to record the principal and interest payment on a DNR Energy Loan:

| <u>Date</u> | <u>Capital Projects Fund</u> | <u>A/C No.</u> | <u>Debit</u> | <u>Credit</u> |
|-------------|------------------------------|----------------|--------------|---------------|
| 1/15/xx     | Principal - Short Term Loans | 5121-6612      | \$10,000     |               |
|             | Interest - Short Term Loans  | 5221-6622      | \$150        |               |
|             | Cash in Banks                | 1111           |              | \$10,150      |

| <u>Date</u> | <u>Description</u>                         | <u>A/C No.</u> | <u>Debit</u> | <u>Credit</u> |
|-------------|--|----------------|--------------|---------------|
| 1/15/xx     | Loans Payable                              | 2121           | \$10,000     |               |
|             | Amounts Available for the Payment of Loans | 1641           |              | \$10,000      |

# Local Match Requirements





**Matching Federal or Other Project Expenditures**

Certain federal projects require that the LEA expend matching amounts from local sources in conjunction with federal expenditures. The following method should clearly demonstrate a record of such transactions and “prove” that matching has occurred.

Section of LEA Budget

|   |      |         |                                     |
|---|------|---------|-------------------------------------|
| · | 2220 | 6541    | Library Equipment - Matching        |
|   | 2220 | 6541.55 | Library Equipment - Federal Project |

An invoice for \$1,500 is processed for payment with half paid by project 55 and the other half paid from the matching account immediately preceding the project account. The voucher jacket should indicate \$750 expended to function code 2220, object code 6541 and \$750 expended to function code 2220, object code 6541.55, the federal project. If the vouchers are filed by account code it will be necessary to make copies of the voucher and its contents to place in the two file locations.

It is important in this process to properly code the function/program and object in addition to the source of funds or project code. If the expense is for media equipment, it should be coded to function code 2220 and not function code 2320 - General Administration.

This page is reserved for future use.

# MOHEFA Direct Deposit Program



## Overview

The Missouri Direct Deposit Program was established per Section 164.303, RSMo, in 1995. The Missouri Health and Educational Facilities Authority (MOHEFA) administer the program. It was designed as a credit enhancement mechanism for public school bonds by authorizing the direct deposit of a portion of a school district's state aid payments by the State of Missouri to a trustee bank that accumulates these payments and then makes the principal and interest payments to the paying agent on the bonds. The advantage of participating in the program is higher rating on bonds resulting in an interest savings.

To be eligible to participate in the program a bond must be a general obligation bond of the school district, which complies with all requirements of Missouri law applicable to such obligations including registration with the State Auditor. Obligations of school districts other than general obligation bonds such as revenue bonds, leasehold bonds, certificates of participation and tax or revenue anticipation notes are not eligible for inclusion in the Direct Deposit Program.

The bonds may be either "new money" or "refunding" bonds. Any refunding or refinancing of existing bonds must have a net present value savings (NPV), calculated without the savings attributable to Direct Deposit Program, of a minimum of 1 ½ percent of the par amount of the refunded bonds in order to be eligible for reimbursement of issuance costs.

A participating district is required to levy the amount necessary in the Debt Service Fund to meet the principal and interest payments on the bonds as they come due. The district will be authorized to transfer from the Debt Service Fund to the operating funds an amount equal to the amount directly deposited with the trustee. This transfer is authorized because the amounts deposited with the trustee were state aid payments that would otherwise have been deposited into the operating funds.

## Journal Entries

The following are accounting procedures for direct deposit of state aid monies to a direct deposit trustee to pay general obligation bonds in accordance with Sections 160.534, 164.303, 165.091, 166.275, 166.300, 360.015, 360.106, and 360.111 - 360.118, RSMo. Although directly deposited with a trustee, the district continues to be the legal owner of the funds. The district must ensure that the recording allows the direct deposit monies to eventually be credited to the correct fund to enable proper reporting of state aid (Basic Formula money or other monies if so diverted) in the General (Incidental) and Special Revenue (Teachers) Funds, where it will be reflected on the ASBR and compared with the Department of Elementary and Secondary Education payment file. Journal entries are also included to account for the payment of principal, interest, and fees, and to record any interest income earned on the direct deposit account. The journal entry examples that follow have been set up with the assumptions that there is only a levy in the General (Incidental) Fund and that only Basic Formula monies are redirected. If a district has a levy in the Special Revenue (Teachers) Fund or a designated Debt Service or Capital Projects Fund levy then the district would also need to allocate Basic Formula revenue and/or payback based on that fund(s). Other monies that may be intercepted for purposes of the Direct Deposit Program are Proposition C, Classroom Trust Fund, and Transportation.

**Section A - Recording Monthly State Aid Payment**

Assumptions:

- District receives \$1,000,000/month in state foundation aid
- Principal and interest escrow is \$24,000/month and is directly deposited with the trustee

The following journal entries are to record the monthly Basic Formula payment of \$1,000,000. The \$976,000 (\$1,000,000 - 24,000) received from the Department is recorded as usual in the General (Incidental) Fund while the \$24,000 is recorded as an escrowed cash receipt in the district's Debt Service Fund (the \$24,000 is actually directly deposited to and held by a trustee and is not received by the district).

General Journal entry to record monthly Basic Formula payments:

| <u>Date</u> | <u>General (Incidental) Fund Entry</u> | <u>A/C No.</u> | <u>Debit</u> | <u>Credit</u> |
|-------------|--|----------------|--------------|---------------|
| 7/1/xx      | Cash in Banks                          | 1111           | \$976,000    |               |
|             | Basic Formula                          | *5311          |              | \$976,000     |

General Journal entry to record direct deposit amount:

| <u>Date</u> | <u>Debt Service Fund Entry</u>    | <u>A/C No.</u> | <u>Debit</u> | <u>Credit</u> |
|-------------|-----------------------------------|----------------|--------------|---------------|
| 7/1/xx      | Escrowed Cash                     | 1151           | \$24,000     |               |
|             | Temporary Direct Deposit Revenues | 5691           |              | \$24,000      |

**Section B - Recording the Transfer From the Debt Service Fund to the General (Incidental) Fund**

The following journal entries are to record the \$24,000 payment from the Debt Service Fund cash account 1111 (district Debt Service Fund bank account) to the General (Incidental) Fund to reflect the remaining portion of the state aid in the General (Incidental) Fund, revenue code 5311. This entry effectively reverses the revenue recorded earlier in the Debt Service Fund to eliminate double recording of the \$24,000 state aid revenues in both the Debt Service Fund and the General (Incidental) Fund.

Since the Debt Service Fund is required by statute to be a separate bank account, the district will be required to institute a banking transfer from the Debt Service Fund bank account to the General (Incidental) Fund bank account for the \$24,000. The following journal entries should be made when these transfers actually occur. It would be beneficial for the district to initiate and record these transfers on a monthly basis; thereby, avoiding any confusion regarding the transfer of interest earned on these monies. However, if the school district will incur a deficit fund balance in the Debt Service Fund, then the school district would only transfer monies when the funds are available. If adequate monies are not available to be transferred to the General (Incidental) Fund, then a liability will need to be established (see related journal entries below).

**Debt Service Fund Has a Sufficient Balance to Make the Transfer**

General Journal entries to record the direct deposit payment from the Debt Service Fund to the General (Incidental) Fund:

| <u>Date</u> | <u>General (Incidental) Fund Entry</u> | <u>A/C No.</u> | <u>Debit</u> | <u>Credit</u> |
|-------------|--|----------------|--------------|---------------|
| 7/1/xx      | Cash in Banks                          | 1111           | \$24,000     |               |
|             | Basic Formula                          | *5311          |              | \$24,000      |

\* Refer to the monthly revenue transmittal to determine which revenues were intercepted for purposes of the Direct Deposit Program.

| <u>Date</u> | <u>Debt Service Fund Entry</u>    | <u>A/C No.</u> | <u>Debit</u> | <u>Credit</u> |
|-------------|-----------------------------------|----------------|--------------|---------------|
| 7/1/xx      | Temporary Direct Deposit Revenues | 5691           | \$24,000     |               |
|             | Cash in Banks                     | 1111           |              | \$24,000      |

**Debt Service Fund Has an Insufficient Balance to Make the Transfer (Balance of \$17,000)**

General Journal entries to record the direct deposit payment from the Debt Service Fund to the General (Incidental) Fund:

| <u>Date</u> | <u>General (Incidental) Fund Entry</u> | <u>A/C No.</u> | <u>Debit</u> | <u>Credit</u> |
|-------------|--|----------------|--------------|---------------|
| 7/1/xx      | Cash in Banks                          | 1111           | \$17,000     |               |
|             | Due From Debt Service Fund             | 1296           | \$7,000      |               |
|             | Basic Formula                          | 5311           |              | \$24,000      |

| <u>Date</u> | <u>Debt Service Fund Entry</u>    | <u>A/C No.</u> | <u>Debit</u> | <u>Credit</u> |
|-------------|-----------------------------------|----------------|--------------|---------------|
| 7/1/xx      | Temporary Direct Deposit Revenues | 5691           | \$24,000     |               |
|             | Due To General (Incidental) Fund  | 2182           |              | \$7,000       |
|             | Cash in Banks                     | 1111           |              | \$17,000      |

At this point, the Debt Service Fund owes the General (Incidental) Fund \$7,000. When sufficient current tax receipts are received and available in the Debt Service Fund to repay the General (Incidental) Fund, the following transaction must be made:

General Journal entry to record the repayment of the General (Incidental) Fund:

| <u>Date</u> | <u>General (Incidental) Fund Entry</u> | <u>A/C No.</u> | <u>Debit</u> | <u>Credit</u> |
|-------------|--|----------------|--------------|---------------|
| 7/15/x      | Cash in Banks                          | 1111           | \$7,000      |               |
| x           | Due From Debt Service                  | 1296           |              | \$7,000       |

| <u>Date</u> | <u>Debt Service Fund Entry</u> | <u>A/C No.</u> | <u>Debit</u> | <u>Credit</u> |
|-------------|--------------------------------|----------------|--------------|---------------|
| 7/15/x      | Due To General Fund            | 2182           | \$7,000      |               |
| x           | Cash in Banks                  | 1111           |              | \$7,000       |

**Section C - Recording Semi-Annual Payment of Principal, Interest, and Fees**

Bond payments are generally due on March 1 and September 1. The direct deposit trustee makes payment to the paying agent from the escrowed cash (recorded in the Debt Service Fund although physically held by the direct deposit trustee). When the payment is made, the district reduces the amount in the escrowed Debt Service balance by the amount of the payment to reflect the payment on the district’s books.

General Journal entry reflects the payment made by the direct deposit trustee on behalf of the school district for principal, interest, and paying agent fees:

| <u>Date</u> | <u>Debt Service Fund Entry</u>  | <u>A/C No.</u> | <u>Debit</u> | <u>Credit</u> |
|-------------|---------------------------------|----------------|--------------|---------------|
| 3/1/xx      | Principal - Bonded Indebtedness | 5111-6611      | \$130,000    |               |
|             | Interest - Bonded Indebtedness  | 5211-6621      | \$11,500     |               |
|             | Fees - Bonded Indebtedness      | 5311-6631      | \$2,500      |               |
|             | Escrowed Cash                   | 1151           |              | \$144,000     |

**Section D - Recording Interest Earned on Direct Deposit Account**

Monies placed in direct deposit with the trustee *may* be placed in an interest bearing account by the trustee. The school district *shall* receive the earnings, or a credit for such earnings, for any amounts invested which are attributable to the district. The district would need to make one of the following entries to record the interest in the Debt Service Fund.

General Journal entry to record interest income of \$8,250 received on the direct deposit monies held by the trustee. (This entry would be made if the trustee actually made a payment to the district and the money is deposited into the Debt Service Fund bank account.):

| <u>Date</u> | <u>Debt Service Fund Entry</u>   | <u>A/C No.</u> | <u>Debit</u> | <u>Credit</u> |
|-------------|----------------------------------|----------------|--------------|---------------|
| 1/1/xx      | Cash in Banks                    | 1111           | \$8,250      |               |
|             | Earnings from Temporary Deposits | 5141           |              | \$8,250       |

General Journal entry to record interest income of \$8,250 earned on direct deposit monies. (In this instance, interest is credited to the district’s trustee direct deposit account as opposed to a payment actually being made to the district.):

| <u>Date</u> | <u>Debt Service Fund Entry</u>   | <u>A/C No.</u> | <u>Debit</u> | <u>Credit</u> |
|-------------|----------------------------------|----------------|--------------|---------------|
| 1/1/xx      | Escrowed Cash                    | 1151           | \$8,250      |               |
|             | Earnings From Temporary Deposits | 5141           |              | \$8,250       |

**Section E - Recording Payment of Issuance Costs**

The district should record the expenditures incurred for issuance costs when they occur in either the General (Incidental) Fund or Debt Service Fund using the 6600 series of object codes or the Capital Projects Fund using the 6500 series of object codes.

There are two bonded debt situations that may occur. One is to refund prior debt in order to restructure bond payments, remove restrictive bond covenants or obtain a better/enhanced interest rate on the bonds issued.

The other situation is to issue new debt in order to finance capital projects. Due to the different nature of the two situations, the related accounting procedures and journal entries have been documented below to show the recording of the payment of issuance costs.

**Refunding of Debt**

When debt is refunded, the issuance cost should be paid from the General (Incidental) Fund, but may be paid from refunding bond proceeds from the Debt Service Fund per House Bill 1711, 2002. The following entries are to record these costs:

General Journal entry to record the issuance costs:

| <u>Date</u> | <u>General (Incidental) Fund or Debt Service Fund Entry</u> | <u>A/C No.</u> | <u>Debit</u> | <u>Credit</u> |
|-------------|---|----------------|--------------|---------------|
| 7/15/x      | Fees - Bonded Indebtedness                                  | 5311-6631      | \$9,000      |               |
| x           | Cash in Banks   | 1111           |              | \$9,000       |

**New Bond Issue**

When a new bond is issued, the issuance cost may be paid from either the Capital Projects Fund or the General (Incidental) Fund.

General Journal entry to record the payment of issuance costs in the Capital Projects Fund when these costs are capitalized:

| <u>Date</u> | <u>Capital Projects Fund Entry</u>                     | <u>A/C No.</u> | <u>Debit</u> | <u>Credit</u> |
|-------------|--|----------------|--------------|---------------|
| 7/15/x      | Architecture, Engineering, and Legal Service/Buildings | 4031-6521      | \$9,000      |               |
| x           | Cash in Banks  | 1111           |              | \$9,000       |

General Journal entry to record the payment of issuance costs in the Capital Projects or General (Incidental) Fund when these costs are not capitalized:

| <u>Date</u> | <u>Capital Projects Fund or General (Incidental) Fund Entry</u> | <u>A/C No.</u> | <u>Debit</u> | <u>Credit</u> |
|-------------|---|----------------|--------------|---------------|
| 7/15/x      | Fees - Bonded Indebtedness                                      | 5311-6631      | \$9,000      |               |
| x           | Cash in Banks   | 1111           |              | \$9,000       |

**Section F – Recording Excess Funds**

If the district’s escrow account appears to have more money in it than necessary to pay the annual principal and interest payments on the bond the bank holding the MOHEFA direct deposit escrow account may choose to send those excess funds back to the district. If so the district must record the movement of that money as follows:

General Journal entry to record the excess funds in the districts MOHEFA account that the bank holding the escrow has given back to the district in the form of a check for \$1,550:

| <u>Date</u> | <u>Debt Service Fund Entry</u> | <u>A/C No.</u> | <u>Debit</u> | <u>Credit</u> |
|-------------|--------------------------------|----------------|--------------|---------------|
| 1/1/xx      | Cash in Banks                  | 1111           | \$1,550      |               |
|             | Escrowed Cash                  | 1151           |              | \$1,550       |

# Refunds and Reimbursements



**Refunds and Reimbursements - Incoming to District**

Refunds and reimbursements correcting or adjusting previous payments that were charged to an:

- Expenditure account in the current year should be credited to the appropriate expenditure account (reduces apparent expenditures).
- Expenditure account of a previous year should be credited to a revenue account (account 5195, Prior Period Adjustment). Some exceptions to this rule relate to vehicle gas tax refund and reimbursement for salary expenditures. The amount of gas tax refund is applied as a credit to transportation supplies in the year received. Reimbursements or receipts for a salary expenditure should always be recorded as a revenue (account 5198, Miscellaneous Local Revenue, account 5397, Other State Revenue, or account 5497, Other Federal Revenue) and then expensed in the appropriate salary expenditure category.

**Refunds and Reimbursements - Outgoing from District**

Payments made by an LEA correcting or adjusting previous revenues that were recorded in:

- Revenue accounts in the current year should be debited to the same revenue account (reduces apparent revenue).
- Revenue account of a previous year should be debited to current year expense (function code 2329, Executive Administration or function code 2529, Business/Central Services, object code 6398, Other Expenses).

This page is reserved for future use.

# Supplemental Educational Services Fiscal Guidance



**Documentation and ePeGS Reporting**

If a school district or a building within a school district is an approved Supplemental Educational Services (SES) provider and they have provided services to their own district’s students, records must be maintained of the students served as well as hours and dates of services. This documentation must reconcile with the Title I payment requests through the ePeGS system.

The district must ensure that the district’s budget and final expenditure report in ePeGS shows all expenditures the district is eligible to claim for SES services through Title I that are coded under 1942 – 6300. This will not match the district’s actual books or the ASBR because the district cannot treat payments to employees and other expenditures as purchased services; however, ePeGS directs districts to show SES services as purchased services and does not account for the fact that some school districts have been approved to be a SES provider.

**Determining if a Person can be Treated as a Purchased Service**

The IRS has the following guidance on determining if a person is considered an employee or an independent contractor: <http://www.irs.gov>.

It is the district’s legal responsibility to determine if a person is considered an employee of the district or if they are considered an independent contract, but note that a person who is treated as an employee of the district (i.e. full time elementary teacher) can never be called an independent contract for other duties performed.

**Coding Cost**

If a school district or a building within a school district is an approved Supplemental Educational Services (SES) provider, it should code the SES expenditures in the same manner as the following examples. Please note that exact entries will depend on individual unique circumstances.

**5451 – Revenue Code for Title I.A**

**1942 – Function Code for Supplemental Educational Services (SES)**

**Example of how to code salary and benefit costs for an employee of the district:**

General Journal entries to record salary and benefit expenditures for certificated staff:

| <b>Teachers Fund Entry</b>                                | <b>A/C No.</b> | <b>Debit</b> | <b>Credit</b> |
|---|----------------|--------------|---------------|
|   |                |              |               |
| Supplemental Educational Services / Supplemental Pay      | 1942-6131      | \$450.00     |               |
| Supplemental Educational Services / Teachers’ Retirement* | 1942-6211      | \$50.00      |               |
| Cash in Banks   | 1111           |              | \$500.00      |

General Journal entries to record salary and benefit expenditures for non-certificated staff:

| <b>General Fund Entry</b>   | <b><u>A/C No.</u></b> | <b><u>Debit</u></b> | <b><u>Credit</u></b> |
|---|-----------------------|---------------------|----------------------|
| Supplemental Educational Services / Classified Salaries - Regular | 1942-6151             | \$450.00            |                      |
| Supplemental Educational Services / Non-Teachers Retirement*      | 1942-6221             | \$45.00             |                      |
| Supplemental Educational Services / OASDI*                        | 1942-6231             | \$5.00              |                      |
| Cash in Banks   | 1111                  |                     | \$500.00             |

\*as applicable

**Example of how to code the cost of an Independent Contractor:**

General Journal entries to record salary and benefit expenditures for certificated / non-certificated staff:

| <b>General or Teachers Fund Entry</b>                | <b><u>A/C No.</u></b> | <b><u>Debit</u></b> | <b><u>Credit</u></b> |
|--|-----------------------|---------------------|----------------------|
| Supplemental Educational Services / Supplemental Pay | 1942-6311             | \$500.00            |                      |
| Cash in Banks  | 1111                  |                     | \$500.00             |

**Example of how to code supply cost:**

| <b>General Fund Entry</b>                            | <b><u>A/C No.</u></b> | <b><u>Debit</u></b> | <b><u>Credit</u></b> |
|--|-----------------------|---------------------|----------------------|
| Supplemental Educational Services / General Supplies | 1942-6411             | \$600.00            |                      |
| Cash in Banks  | 1111                  |                     | \$600.00             |

**Example of how to code transportation cost:**

All cost of transportation for this program should be coded as normal and miles shown as Disapproved Route Miles on the Application for State Transportation Aid. Example of those entries would be:

**Shuttle Routes between buildings:**

District Operated (Disapproved Route Miles):

| <b>General Fund Entry</b>  | <b><u>A/C No.</u></b> | <b><u>Debit</u></b> | <b><u>Credit</u></b> |
|--|-----------------------|---------------------|----------------------|
| District Operated Non-Disabled Pupil Transportation Services / Classified Salaries – Part-Time | 2552-6161             | \$500.00            |                      |
| District Operated Non-Disabled Pupil Transportation Services / OASDI                           | 2552-6231             | 20.00               |                      |
| District Operated Non-Disabled Pupil Transportation Services / Gasoline/Diesel                 | 2552-6486             | 150.00              |                      |
| Cash in Banks  | 1111                  |                     | \$670.00             |

Contracted (Disapproved Route Miles):

| <b>General Fund Entry</b>  | <b><u>A/C No.</u></b> | <b><u>Debit</u></b> | <b><u>Credit</u></b> |
|--|-----------------------|---------------------|----------------------|
| Contracted Pupil Transportation Services / Other Contracted Pupil Transportation – Non-Route | 2551-6342             | \$800.00            |                      |
| Cash in Banks  | 1111                  |                     | \$800.00             |

**Routes to take children home after SES services are provided:**

District Operated (Disapproved Route Miles):

| <b>General Fund Entry</b>  | <b><u>A/C No.</u></b> | <b><u>Debit</u></b> | <b><u>Credit</u></b> |
|--|-----------------------|---------------------|----------------------|
| District Operated Non-Disabled Pupil Transportation Services / Classified Salaries – Part-Time | 2552-6161             | \$900.00            |                      |
| District Operated Non-Disabled Pupil Transportation Services / OASDI                           | 2552-6231             | 40.00               |                      |
| District Operated Non-Disabled Pupil Transportation Services / Gasoline/Diesel                 | 2552-6486             | 200.00              |                      |
| Cash in Banks  | 1111                  |                     | \$1,140.00           |

Contracted (Disapproved Route Miles):

| <b>General Fund Entry</b>   | <b><u>A/C No.</u></b> | <b><u>Debit</u></b> | <b><u>Credit</u></b> |
|---|-----------------------|---------------------|----------------------|
| Contracted Pupil Transportation Services / Contracted Pupil Transportation To and From School | 2551-6341             | \$1,500.00          |                      |
| Cash in Banks   | 1111                  |                     | \$1,500.00           |

If a school district or a building within a school district is an approved Supplemental Educational Services (SES) provider and the district transports another district’s students and then bills that other district for the cost, the revenue received would be coded as 5841 – Transportation Amounts Received from Other LEA’s for Non-Disabled Transportation and the miles will need to be provided back to the other district for reporting on the Application of State Transportation Aid as Disapproved Route Miles.

**Billing Cost to Other Buildings**

If a school district or a building within a school district is an approved Supplemental Educational Services (SES) provider and “bills” the different school buildings within the district for the cost of providing services, the SES provider will have to develop a method to do so that does not affect the official accounting system that is maintained in accordance to the Missouri Financial Accounting Manual. One such method would be to code expenditures using a project code that represents each building, although this may be difficult to determine how much of these expenditures should be applied to each building at the time the expenditure is posted.

Salary Cost for Elementary (project code 235)

| <b>Teachers Fund Entry</b>                                | <b><u>A/C No.</u></b> | <b><u>Debit</u></b> | <b><u>Credit</u></b> |
|---|-----------------------|---------------------|----------------------|
|   |                       |                     |                      |
| Supplemental Educational Services / Supplemental Pay      | 1942-6131-235         | \$450.00            |                      |
| Supplemental Educational Services / Teachers' Retirement* | 1942-6211-235         | \$50.00             |                      |
| Cash in Banks   | 1111                  |                     | \$500.00             |

Salary Cost Middle School (project code 236)

| <b>Teachers Fund Entry</b>                                | <b><u>A/C No.</u></b> | <b><u>Debit</u></b> | <b><u>Credit</u></b> |
|---|-----------------------|---------------------|----------------------|
|   |                       |                     |                      |
| Supplemental Educational Services / Supplemental Pay      | 1942-6131-236         | \$450.00            |                      |
| Supplemental Educational Services / Teachers' Retirement* | 1942-6211-236         | \$50.00             |                      |
| Cash in Banks   | 1111                  |                     | \$500.00             |

\* As appropriate

---

**Billing Cost to Other Outside Entity**

If a school district or a building within a school district is an approved Supplemental Educational Services (SES) provider and they bill another public school district for services, an invoice detailing the services provided to each student and length of time services were provided will need to be created and sent to the other district. If the district is a cash basis district the invoice cannot result in any entries affecting the official accounting system that is maintained in accordance with the Missouri Financial Accounting Manual. Accrual based districts must follow all applicable accounting with the Missouri Financial Accounting Manual. When a public school district pays the invoice, the SES district will record that payment as follows (using an extension to tract the revenue as SES related):

**Example of how to code revenue received from other public school districts when the district operates on a cash basis:**

| <b>General or Teachers Fund Entry</b>            | <b><u>A/C No.</u></b> | <b><u>Debit</u></b> | <b><u>Credit</u></b> |
|--|-----------------------|---------------------|----------------------|
|  |                       |                     |                      |
| Cash in Banks                                    | 1111                  | \$2,000.00          |                      |
| Contracted Educational Services From Other LEA's | 5831                  |                     | \$2,000.00           |

**Interfund Transfers**

Section 165.011, RSMo, and administrative interpretations provide for several interfund transfers that a school district may make. The title of each transfer reflects the ASBR terminology used in Part I-A, Transfer Funds Detail. Below is a listing of the allowable interfund transfers:

|     | <b>Transfer Type</b>                    | <b>Transfer From</b>      | <b>Transfer To</b>              |
|-----|---|---------------------------|---------------------------------|
| 002 | Teachers Fund                           | General (Incidental) Fund | Special Revenue (Teachers) Fund |
| 003 | Debt Service Balance                    | Debt Service Fund         | Capital Projects Fund           |
| 004 | Transportation Calc Cost                | General (Incidental) Fund | Capital Projects Fund           |
| 005 | Area Career Center                      | General (Incidental) Fund | Capital Projects Fund           |
| 006 | Grant Match                             | General (Incidental) Fund | Capital Projects Fund           |
| 007 | DNR Energy Conservation Loans           | General (Incidental) Fund | Capital Projects Fund           |
| 008 | Food Services                           | General (Incidental) Fund | Capital Projects Fund           |
| 009 | Student Activities                      | General (Incidental) Fund | Capital Projects Fund           |
| 010 | \$162,326 or 7% x SAT x WADA            | General (Incidental) Fund | Capital Projects Fund           |
| 011 | Capital Projects Fund Interest          | Capital Projects Fund     | General (Incidental) Fund       |
| 012 | Unspent Bond Proceeds                   | Capital Projects Fund     | Debt Service Fund               |
| 014 | Capital Projects Unrestricted Funds     | Capital Projects Fund     | General (Incidental) Fund       |
| 015 | FY06 Designated Levy or 5% x SAT x WADA | General (Incidental) Fund | Debt Service                    |
| 016 | FY06 Designated Levy or 5% x SAT x WADA | General (Incidental) Fund | Capital Projects Fund           |
| 017 | Lease Purchase Prior to 01/01/1997      | General (Incidental) Fund | Capital Projects Fund           |
| 018 | Guaranteed Energy Performance Contract  | General (Incidental) Fund | Capital Projects Fund           |
| 019 | Excess Incidental Fund Balance          | General (Incidental) Fund | Special Revenue (Teachers) Fund |

**Sample General Ledger Entry**

The General Journal entries for the transfers are outlined below:

| <u>Date</u> | <u>“Transfer From” Fund</u> | <u>A/C No.</u> | <u>Debit</u> | <u>Credit</u> |
|-------------|-----------------------------|----------------|--------------|---------------|
| 6/30/xx     | Fund Balance                | 3110           | \$5,000      |               |
|             | Cash in Banks               | 1111           |              | \$5,000       |

| <u>Date</u> | <u>“Transfer To” Fund</u> | <u>A/C No.</u> | <u>Debit</u> | <u>Credit</u> |
|-------------|---------------------------|----------------|--------------|---------------|
| 6/30/xx     | Cash in Banks             | 1111           | \$5,000      |               |
|             | Fund Balance              | 3110           |              | \$5,000       |

An explanation of each of the transfers listed on the previous page is given below:

**Teachers Fund Transfer (002)** - A district may transfer revenue, on a regular basis (monthly, quarterly, etc.), from the General (Incidental) Fund to the Special Revenue (Teachers) Fund to cover checks being written against the fund. Section 165.021.4, RSMo, states, “No check shall be drawn ... unless there is sufficient money in the treasury and in the proper fund for the payment of the indebtedness.” District must transfer an amount sufficient to cover all expenditures that are not covered by another source of revenue. Section 165.011, RSMo.

**Debt Service Balance Transfer (003)** - A district may transfer to the Capital Projects Fund any balance remaining in the Debt Service Fund after the total outstanding bonded indebtedness has been paid. If the district elects not to make this transfer, the balance would be left in the Debt Service Fund for subsequent debt service requirements. Section 165.011, RSMo.

**Transportation Calculated Cost Transfer (004)** - A district in compliance with Section 163.031.6, RSMo may transfer from the General (Incidental) Fund to the Capital Projects Fund an amount based on prior year allowable transportation capital outlay expenditures, including school bus and facility depreciation. This amount is calculated by the Department of Elementary and Secondary Education and is indicated monthly on the Calculation of State Transportation Aid Report. The transferred amount may be used for any capital outlay expense, or it may be used to build a balance in the Capital Projects Fund. Section 165.011, RSMo.

**Area Career Center Transfer (005)** - A district in compliance with Section 163.031.6, RSMo may transfer from the General (Incidental) Fund to the Capital Projects Fund amounts necessary to satisfy expenditures in the Capital Projects Fund for state approved area vocational schools located within that school district. Section 165.011, RSMo.

**Grant Match Transfer (006)** - A district may transfer from the General (Incidental) Fund to the Capital Projects Fund amounts equal to the local match percentage requirement for that portion of any grant revenue expended for capital outlay (equipment).

The amount of allowable transfer for local match is based on the “grantor” specified local match percentage requirement and may be an amount substantially less than the actual amount the district adds to a project in “local dollars”. There are, in effect, **two local match amounts**:

- The first type of local match relates to the “grantor” specified percentage that is used to calculate the allowable transfer to the Capital Projects Fund (based on 10%, 20%, 30%...or as much as 100% for some grants).

- The second type of local match is the total additional dollars required from local sources to fully fund a particular capital outlay project. These additional amounts, while being local dollars, are NOT considered local match for the purpose of the Grant Match Transfer.

All grants that have a capital outlay component may be entered on the Grant Match Detail data entry screen (ASBR, Part I, Grant Match Detail). However, amounts indicated on the ASBR, Transfer Funds Detail, Line 006, Grant Match Transfer may not exceed the maximum calculated transfer as indicated on Part I, Grant Match Detail.

**DNR Energy Conservation Loans Transfer (007)** - A district in compliance with Section 163.031.6, RSMo may transfer from the General (Incidental) Fund to the Capital Projects Fund amounts necessary to pay principal, interest and fees on Department of Natural Resources (DNR) loans per Section 640.653, RSMo. Payments must be generated from energy savings in the General (Incidental) Fund.

**Food Services Transfer (008)** - A district may transfer from the General (Incidental) Fund, food service account, to the Capital Projects Fund amounts necessary to pay for kitchen/food service related equipment. This transfer may only be made from balances **remaining** in the food service account. While equipment expenditures do not require coordination with School Food Services, expenditures for renovations do require coordination with School Food Services.

**Student Activities Transfer (009)** - A district may transfer from the General (Incidental) Fund, student activity account, to the Capital Projects Fund amounts necessary to pay for designated equipment/capital outlay.

**\$162,326 or 7% x SAT x WADA Transfer (010)** - Per Section 165.011, RSMo, a district in compliance with Section 163.031.6, RSMo may transfer from the General (Incidental) Fund to the Capital Projects Fund amounts necessary for capital outlay expenditures. If the transfer is in excess of adjusted expenditures, the board must pass a resolution identifying the specific projects and the estimated expenditure date (or dates).

The maximum \$162,326 or 7% x SAT x WADA transfer amounts are calculated annually by School Finance based upon the first preceding year weighted average daily attendance and the current year state adequacy target and are not finalized until June 30 of that year. The maximum transfer amount is calculated by determining the greater of:

- \$162,326 or
- 7% of the current year's state adequacy target multiplied by the district's first preceding year weighted average daily attendance.

**Capital Projects Fund Interest Transfer (011)** - A district may transfer from the Capital Projects Fund to the General (Incidental) Fund the interest earned from undesignated balances in the Capital Projects Fund, after it has made all placements of interest otherwise provided by law. Interest earned is initially placed in the fund(s) that provided the principal. If the district chooses, some or all of the interest earned in the Capital Projects Fund on undesignated balances may be transferred to the General (Incidental) Fund. However, interest earned on bond proceeds (or some other restricted balance) **cannot** be transferred to the General (Incidental) Fund. Section 165.011, RSMo.

**Unspent Bond Proceeds Transfer (012)** - A district is **required** to transfer from the Capital Projects Fund to the Debt Service Fund remaining bond proceeds after completion of the project for which the bonds were issued. Section 165.011, RSMo.

**Capital Projects Unrestricted Funds Transfer (014)** – A district may transfer unrestricted funds from the Capital Projects fund to the General (Incidental) fund if on the prior June thirtieth of any fiscal year the sum of unrestricted balances in a school district's General (Incidental) fund and Special Revenue (Teacher) fund is less than twenty percent of the sum of the school district's expenditures.

There is no limit to the amount of unrestricted monies that can be transferred pursuant to this law. Districts must make the actual transfer prior to the end of the fiscal year. Districts should consider the future needs of the Capital Projects Fund prior to determining the amount of such transfer. There is no provision in state law to reverse the transfer if a district later determines the money is needed in the Capital Projects Fund. Section 165.011, RSMo.

**FY06 Designated Levy or 5% x SAT x WADA Transfer (015 & 016)** – Per Section 165.011, RSMo, a district in compliance with Section 163.031.6, RSMo, that does not make the \$162,326 or 5% x SAT x WADA transfer, nor make payments or expenditures related to obligations made under Section 177.088, RSMo, may transfer from the General (Incidental) fund to the Debt Service Fund or the Capital Projects Fund the greater of:

- The state aid received in the 2005-06 school year as a result of no more than eighteen cents of the sum of the debt service and capital projects levy used in the foundation formula and placed in the respective Debt Service or Capital Projects Fund, whichever fund had the designated tax levy; or
- Five percent of the state adequacy target multiplied by the district's first preceding year weighted average daily attendance.

**Lease Purchase Prior to 01/01/1997 Transfer (017)** - Per Section 165.011, RSMo, a district in compliance with Section 163.031.6, RSMo may transfer amounts from the General (Incidental) Fund to the Capital Projects Fund necessary to cover current year obligations for lease-purchase obligations entered into prior to January 1, 1997.

**Guaranteed Energy Performance Savings Contract Transfer (018)** - A district may transfer from the General (Incidental) Fund to the Capital Projects Fund amounts necessary to pay principal, interest and fees on Guaranteed Energy Savings Performance Contracts per Sections 165.011 and 8.231, RSMo. Payments must be generated from energy savings in the General (Incidental) Fund. Section 165.011, RSMo.

**Excess Incidental Fund Balance Transfer (019)** - Any district that uses a General (Incidental) Fund transfer to pay for more than twenty-five percent of the annual certificated compensation obligation of the district and has a General (Incidental) Fund balance on June 30 in excess of fifty percent of the combined General (Incidental) and Special Revenue (Teachers) Fund expenditures for the fiscal year just ended shall be required to transfer the excess balance (above 50%) from the General (Incidental) Fund to the Special Revenue (Teachers) Fund. Section 165.011, RSMo.

### **Over-Transfer of Funds**

When planning transfers, it is essential that the district make an accurate estimate of the new fiscal year's expenditures from the Capital Projects Fund. If total expenditures versus revenues are not realistic, the district may have difficulty paying for those budgeted expenditures.

If the district exceeds its transfer ability "the Department of Elementary and Secondary Education shall deduct from a school district's state aid calculated pursuant to Section 163.031, RSMo, an amount equal to the amount of any transfer of funds from the Incidental Fund to the Capital Projects Fund or Debt Service Fund performed during the previous year in violation of this section; except that the state aid shall be deducted over no more than five school years following the school year of an unlawful transfer based on a plan from the district approved by the Commissioner of Elementary and Secondary Education", Section 165.011.6, RSMo.

- The second type of local match is the total additional dollars required from local sources to fully fund a particular capital outlay project. These additional amounts, while being local dollars, are NOT considered local match for the purpose of the Grant Match Transfer.

All grants that have a capital outlay component may be entered on the Grant Match Detail data entry screen (ASBR, Part I, Grant Match Detail). However, amounts indicated on the ASBR, Transfer Funds Detail, Line 006, Grant Match Transfer may not exceed the maximum calculated transfer as indicated on Part I, Grant Match Detail.

**DNR Energy Conservation Loans Transfer (007)** - A district in compliance with Section 163.031.6, RSMo may transfer from the General (Incidental) Fund to the Capital Projects Fund amounts necessary to pay principal, interest and fees on Department of Natural Resources (DNR) loans per Section 640.653, RSMo. Payments must be generated from energy savings in the General (Incidental) Fund.

**Food Services Transfer (008)** - A district may transfer from the General (Incidental) Fund, food service account, to the Capital Projects Fund amounts necessary to pay for kitchen/food service related equipment. This transfer may only be made from balances **remaining** in the food service account. While equipment expenditures do not require coordination with School Food Services, expenditures for renovations do require coordination with School Food Services.

**Student Activities Transfer (009)** - A district may transfer from the General (Incidental) Fund, student activity account, to the Capital Projects Fund amounts necessary to pay for designated equipment/capital outlay.

**\$162,326 or 7% x SAT x WADA Transfer (010)** - Per Section 165.011, RSMo, a district in compliance with Section 163.031.6, RSMo may transfer from the General (Incidental) Fund to the Capital Projects Fund amounts necessary for capital outlay expenditures. If the transfer is in excess of adjusted expenditures, the board must pass a resolution identifying the specific projects and the estimated expenditure date (or dates).

The maximum \$162,326 or 7% x SAT x WADA transfer amounts are calculated annually by School Finance based upon the first preceding year weighted average daily attendance and the current year state adequacy target and are not finalized until June 30 of that year. The maximum transfer amount is calculated by determining the greater of:

- \$162,326 or
- 7% of the current year's state adequacy target multiplied by the district's first preceding year weighted average daily attendance.

**Capital Projects Fund Interest Transfer (011)** - A district may transfer from the Capital Projects Fund to the General (Incidental) Fund the interest earned from undesignated balances in the Capital Projects Fund, after it has made all placements of interest otherwise provided by law. Interest earned is initially placed in the fund(s) that provided the principal. If the district chooses, some or all of the interest earned in the Capital Projects Fund on undesignated balances may be transferred to the General (Incidental) Fund. However, interest earned on bond proceeds (or some other restricted balance) **cannot** be transferred to the General (Incidental) Fund. Section 165.011, RSMo.

**Unspent Bond Proceeds Transfer (012)** - A district is **required** to transfer from the Capital Projects Fund to the Debt Service Fund remaining bond proceeds after completion of the project for which the bonds were issued. Section 165.011, RSMo.

**Capital Projects Unrestricted Funds Transfer (014)** – A district may transfer unrestricted funds from the Capital Projects fund to the General (Incidental) fund if on the prior June thirtieth of any fiscal year the sum of unrestricted balances in a school district's General (Incidental) fund and Special Revenue (Teacher) fund is less than twenty percent of the sum of the school district's expenditures.

There is no limit to the amount of unrestricted monies that can be transferred pursuant to this law. Districts must make the actual transfer prior to the end of the fiscal year. Districts should consider the future needs of the Capital Projects Fund prior to determining the amount of such transfer. There is no provision in state law to reverse the transfer if a district later determines the money is needed in the Capital Projects Fund. Section 165.011, RSMo.

**FY06 Designated Levy or 5% x SAT x WADA Transfer (015 & 016)** – Per Section 165.011, RSMo, a district in compliance with Section 163.031.6, RSMo, that does not make the \$162,326 or 7% x SAT x WADA transfer, nor make payments or expenditures related to obligations made under Section 177.088, RSMo, may transfer from the General (Incidental) fund to the Debt Service Fund or the Capital Projects Fund the greater of:

- The state aid received in the 2005-06 school year as a result of no more than eighteen cents of the sum of the debt service and capital projects levy used in the foundation formula and placed in the respective Debt Service or Capital Projects Fund, whichever fund had the designated tax levy; or
- Five percent of the state adequacy target multiplied by the district's first preceding year weighted average daily attendance.

**Lease Purchase Prior to 01/01/1997 Transfer (017)** - Per Section 165.011, RSMo, a district in compliance with Section 163.031.6, RSMo may transfer amounts from the General (Incidental) Fund to the Capital Projects Fund necessary to cover current year obligations for lease-purchase obligations entered into prior to January 1, 1997.

**Guaranteed Energy Performance Savings Contract Transfer (018)** - A district may transfer from the General (Incidental) Fund to the Capital Projects Fund amounts necessary to pay principal, interest and fees on Guaranteed Energy Savings Performance Contracts per Sections 165.011 and 8.231, RSMo. Payments must be generated from energy savings in the General (Incidental) Fund. Section 165.011, RSMo.

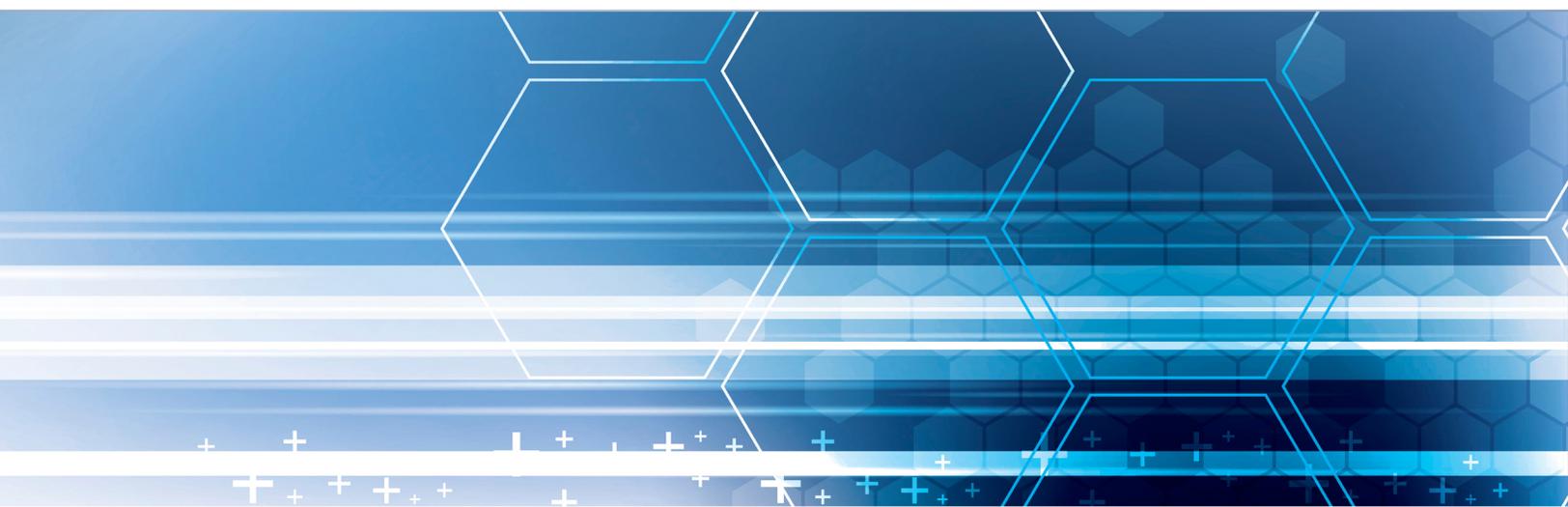
**Excess Incidental Fund Balance Transfer (019)** - Any district that uses a General (Incidental) Fund transfer to pay for more than twenty-five percent of the annual certificated compensation obligation of the district and has a General (Incidental) Fund balance on June 30 in excess of fifty percent of the combined General (Incidental) and Special Revenue (Teachers) Fund expenditures for the fiscal year just ended shall be required to transfer the excess balance (above 50%) from the General (Incidental) Fund to the Special Revenue (Teachers) Fund. Section 165.011, RSMo.

### **Over-Transfer of Funds**

When planning transfers, it is essential that the district make an accurate estimate of the new fiscal year's expenditures from the Capital Projects Fund. If total expenditures versus revenues are not realistic, the district may have difficulty paying for those budgeted expenditures.

If the district exceeds its transfer ability "the Department of Elementary and Secondary Education shall deduct from a school district's state aid calculated pursuant to Section 163.031, RSMo, an amount equal to the amount of any transfer of funds from the Incidental Fund to the Capital Projects Fund or Debt Service Fund performed during the previous year in violation of this section; except that the state aid shall be deducted over no more than five school years following the school year of an unlawful transfer based on a plan from the district approved by the Commissioner of Elementary and Secondary Education", Section 165.011.6, RSMo.

# Vocational Projects For Resale – Suggested Change





**Resale of Vocational Projects**

Expenditures relating to vocational projects for resale, particularly trades houses, may be made from the Capital Projects Fund or the General (Incidental) Fund. While recording the expenditures in the Capital Projects Fund is the preferred accounting method, examples of the required entries for either fund are provided.

**Capital Projects Fund**

The construction of a vocational trades house is a capital outlay expenditure similar to the construction of any other facility in the district. Therefore, it is appropriate to charge the cost of materials and other project related services to the Capital Projects Fund, Inventory for Resale Account, and the appropriate cash contra account. When expenditures are reflected in the Capital Projects Fund, crossing fiscal years does not have an adverse impact on certificated salary compliance or the “per-pupil” expenditure calculation. Upon the sale of the vocational trades house, proceeds from the sale would effectively reverse the expenditure (possibly over two or more years) and any profit would be correctly reflected in the Capital Projects Fund. The potential “loss” on the sale of the property would be reflected as a reduction in the Capital Projects Fund balance.

---

**Example Transaction: Capital Projects Fund - Building Trades Project Sold at a Profit**

Assume that supplies, materials, and other project related costs are \$48,000, and that the house is later sold by bid for \$56,000. This would be recorded as follows:

Example 1: General Journal entries to record cost of supplies, materials and other miscellaneous costs of building the structure:

| <u>Date</u> | <u>Capital Projects Fund Entries</u> | <u>A/C No.</u> | <u>Debit</u> | <u>Credit</u> |
|-------------|--------------------------------------|----------------|--------------|---------------|
| 3/30/xx     | Inventory for Resale                 | 1315           | \$48,000     |               |
|             | Cash in Banks                        | 1111           |              | \$48,000      |

Example 1: General Journal entries to record the sale of the structure and related gain:

| <u>Date</u> | <u>Capital Projects Fund Entries</u> | <u>A/C No.</u> | <u>Debit</u> | <u>Credit</u> |
|-------------|--------------------------------------|----------------|--------------|---------------|
| 4/15/xx     | Cash in Banks                        | 1111           | \$56,000     |               |
|             | Inventory for Resale                 | 1315           |              | \$48,000      |
|             | Sale of Other Property               | 5651           |              | \$8,000       |

Example 2: General Journal entries to record cost of supplies, materials and other miscellaneous costs of building the structure:

| <u>Date</u> | <u>Capital Projects Fund Entries</u> | <u>A/C No.</u> | <u>Debit</u> | <u>Credit</u> |
|-------------|--------------------------------------|----------------|--------------|---------------|
| 3/30/xx     | Other Community Services             | 3911           | \$48,000     |               |
|             | Cash in Banks                        | 1111           |              | \$48,000      |

Example 2: General Journal entries to record the sale of the structure and related gain (ONLY IF OCCURRING DURING THE SAME FISCAL YEAR AS THE EXPENDITURES):

| <u>Date</u> | <u>Capital Projects Fund Entries</u> | <u>A/C No.</u> | <u>Debit</u> | <u>Credit</u> |
|-------------|--------------------------------------|----------------|--------------|---------------|
| 4/15/xx     | Cash in Banks                        | 1111           | \$56,000     |               |
|             | Other Community Services             | 3911           |              | \$48,000      |
|             | Sale of Other Property               | 5651           |              | \$8,000       |

Example 2: General Journal entries to record the sale of the structure and related gain (IF OCCURRING IN A DIFFERENT FISCAL YEAR FROM THE EXPENDITURES):

| <u>Date</u> | <u>Capital Projects Fund Entries</u> | <u>A/C No.</u> | <u>Debit</u> | <u>Credit</u> |
|-------------|--------------------------------------|----------------|--------------|---------------|
| 4/15/xx     | Cash in Banks                        | 1111           | \$56,000     |               |
|             | Prior Period Adjustment              | 5195           |              | \$48,000      |
|             | Sale of Other Property               | 5651           |              | \$8,000       |

If construction is in progress at 6/30/xx, the value will be shown in the asset account 1315, Inventory for Resale, and thus will not decrease the ending fund balance (equivalent to an investment, the conversion of one asset into another asset).

**Example Transaction: Capital Projects Fund - Building Trades Project Sold at a Loss**

If the building trades project is sold at a loss, the amount of the loss will be reflected in the expenses. Assume the same facts as in the above transaction except that the house is sold by bid for \$40,000. The entry to record the sale would be recorded as follows (to offset the expenditures occurring in the current fiscal year):

Example 1: General Journal entries to record cost of supplies, materials and other miscellaneous costs of building the structure:

| <u>Date</u> | <u>Capital Projects Fund Entries</u> | <u>A/C No.</u> | <u>Debit</u> | <u>Credit</u> |
|-------------|--------------------------------------|----------------|--------------|---------------|
| 3/30/xx     | Inventory for Resale                 | 1315           | \$48,000     |               |
|             | Cash in Banks                        | 1111           |              | \$48,000      |

Example 1: General Journal entries to record the sale of the structure at a loss:

| <u>Date</u> | <u>Capital Projects Fund Entries</u> | <u>A/C No.</u> | <u>Debit</u> | <u>Credit</u> |
|-------------|--------------------------------------|----------------|--------------|---------------|
| 4/15/xx     | Cash in Banks                        | 1111           | \$40,000     |               |
|             | Other Community Services             | 3911           | \$8,000      |               |
|             | Inventory for Resale                 | 1315           |              | \$48,000      |

Example 2: General Journal entries to record cost of supplies, materials and other miscellaneous costs of building the structure:

| <u>Date</u> | <u>Capital Projects Fund Entries</u> | <u>A/C No.</u> | <u>Debit</u> | <u>Credit</u> |
|-------------|--------------------------------------|----------------|--------------|---------------|
| 4/15/xx     | Other Community Services             | 3911           | \$48,000     |               |
|             | Cash in Banks                        | 1111           |              | \$48,000      |

Example 2: General Journal entries to record the sale of the structure and related loss (ONLY IF OCCURRING DURING THE SAME FISCAL YEAR AS THE EXPENDITURES):

| <u>Date</u> | <u>Capital Projects Fund Entries</u> | <u>A/C No.</u> | <u>Debit</u> | <u>Credit</u> |
|-------------|--------------------------------------|----------------|--------------|---------------|
| 4/15/xx     | Cash in Banks                        | 1111           | \$40,000     |               |
|             | Other Community Services             | 3911           |              | \$40,000      |

Example 2: General Journal entries to record the sale of the structure and related loss (IF OCCURRING DURING A DIFFERENT FISCAL YEAR AS THE EXPENDITURES):

| <u>Date</u> | <u>Capital Projects Fund Entries</u> | <u>A/C No.</u> | <u>Debit</u> | <u>Credit</u> |
|-------------|--------------------------------------|----------------|--------------|---------------|
| 4/15/xx     | Cash in Banks                        | 1111           | \$40,000     |               |
|             | Prior Period Adjustment              | 5195           |              | \$40,000      |

**General Fund**

Although the accounting method stated above is preferable, the expenses relating to the project may be made from the General (Incidental) Fund. The materials used in the construction of a vocational trades house may be considered supply items, and the cost of materials and other project related services recorded in the General (Incidental) Fund, Inventory for Resale Account, and the appropriate cash contra account. When the building project is completed and sold in the same fiscal year, the building expenditures are effectively reversed when the “Inventory for Resale” entry is made. If there is a profit made on the project above the “supply expenditure”, the “realized revenues” should be placed to the credit of the Capital Projects Fund per Section 165.011, RSMo. One problem with this method occurs when the project is not completed and sold in the same fiscal year. In this case, if the supplies and building materials are expensed and these expenses remain on the books as of June 30, the district will overstate the “current expenditure per pupil” calculation.

If the sale of the vocational trades house occurs in the following year, a prior period adjustment (General Ledger account 5195) is made in the current year, effectively adjusting ending balances to properly reflect the transaction. This does not, however, adjust the inflated General (Incidental) Fund expenditures in the prior year. Another issue in the General (Incidental) Fund transaction is accounting for the possibility of a “loss” on the sale of the house. It is unclear where the loss should be reflected since the sale of the house (a capital asset) must be recorded as revenue in the Capital Projects Fund, but the following year’s “Prior Period Adjustment” would likely impact the General (Incidental) Fund.

**Example Transaction: General (Incidental) Fund - Building Trades Project Sold at a Profit**

Assume that supplies, materials, and other project related costs are \$48,000. Further assume that the house is sold by bid for \$56,000. This would be recorded as follows:

Example 1: General Journal entries to record cost of supplies, materials and other miscellaneous costs of building the structure:

| <u>Date</u> | <u>General (Incidental) Fund Entries</u> | <u>A/C No.</u> | <u>Debit</u> | <u>Credit</u> |
|-------------|--|----------------|--------------|---------------|
| 3/30/xx     | Inventory for Resale                     | 1315           | \$48,000     |               |
|             | Cash in Banks                            | 1111           |              | \$48,000      |

Example 1: General Journal entries to record the sale of the structure and related gain:

| <u>Date</u> | <u>General (Incidental) Fund Entries (42X)</u> | <u>A/C No.</u> | <u>Debit</u> | <u>Credit</u> |
|-------------|--|----------------|--------------|---------------|
| 4/15/xx     | Cash in Banks                                  | 1111           | \$48,000     |               |
|             | Inventory for Resale                           | 1315           |              | \$48,000      |

| <u>Date</u> | <u>Capital Projects Fund Entries (42X)</u> | <u>A/C No.</u> | <u>Debit</u> | <u>Credit</u> |
|-------------|--|----------------|--------------|---------------|
| 4/15/xx     | Cash in Banks                              | 1111           | \$8,000      |               |
|             | Sale of Other Property                     | 5651           |              | \$8,000       |

Example 2: General Journal entries to record cost of supplies, materials and other miscellaneous costs of building the structure:

| <u>Date</u> | <u>General (Incidental) Fund Entries</u> | <u>A/C No.</u> | <u>Debit</u> | <u>Credit</u> |
|-------------|--|----------------|--------------|---------------|
| 3/30/xx     | Other Community Services                 | 3911           | \$48,000     |               |
|             | Cash in Banks                            | 1111           |              | \$48,000      |

Example 2: General Journal entries to record the sale of the structure and related gain (ONLY IF OCCURRING DURING THE SAME FISCAL YEAR AS THE EXPENDITURES):

| <u>Date</u> | <u>General (Incidental) Fund Entries</u> | <u>A/C No.</u> | <u>Debit</u> | <u>Credit</u> |
|-------------|--|----------------|--------------|---------------|
| 4/15/xx     | Cash in Banks                            | 1111           | \$48,000     |               |
|             | Other Community Services                 | 3911           |              | \$48,000      |

| <u>Date</u> | <u>Capital Projects Fund</u> | <u>A/C No.</u> | <u>Debit</u> | <u>Credit</u> |
|-------------|------------------------------|----------------|--------------|---------------|
| 4/15/xx     | Cash in Banks                | 1111           | \$8,000      |               |
|             | Sale of Other Property       | 5651           |              | \$8,000       |

Example 2: General Journal entries to record the sale of the structure and related gain (IF OCCURRING IN A DIFFERENT FISCAL YEAR FROM THE EXPENDITURES):

| <u>Date</u> | <u>General (Incidental) Fund Entries</u> | <u>A/C No.</u> | <u>Debit</u> | <u>Credit</u> |
|-------------|--|----------------|--------------|---------------|
| 4/15/xx     | Cash in Banks                            | 1111           | \$48,000     |               |
|             | Prior Period Adjustment                  | 5195           |              | \$48,000      |

| <u>Date</u> | <u>Capital Projects Fund Entries</u> | <u>A/C No.</u> | <u>Debit</u> | <u>Credit</u> |
|-------------|--------------------------------------|----------------|--------------|---------------|
| 4/15/xx     | Cash in Banks                        | 1111           | \$8,000      |               |
|             | Sale of Other Property               | 5651           |              | \$8,000       |

If construction is in progress at 6/30/xx, the value will be shown in the asset account 1315, Inventory for Resale, and thus will not decrease the ending fund balance (equivalent to an investment, the conversion of one asset into another asset).

**Example Transaction: General (Incidental) Fund - Building Trades Project Sold at a Loss**

If the building trades project is sold at a loss, the amount of the loss will be reflected in the General Ledger Account 6031, Expenditures Control. Assume the same facts as in the above transaction except that the house is sold by bid for \$40,000. The entry to record the sale would be recorded as follows:

Example 1: General Journal entries to record cost of supplies, materials and other miscellaneous costs of building the structure:

| <u>Date</u> | <u>General (Incidental) Fund Entries</u> | <u>A/C No.</u> | <u>Debit</u> | <u>Credit</u> |
|-------------|--|----------------|--------------|---------------|
| 3/30/xx     | Inventory for Resale                     | 1315           | \$48,000     |               |
|             | Cash in Banks                            | 1111           |              | \$48,000      |

Example 1: General Journal entries to record the sale of the structure at a loss:

| <u>Date</u> | <u>General (Incidental) Fund Entries</u> | <u>A/C No.</u> | <u>Debit</u> | <u>Credit</u> |
|-------------|--|----------------|--------------|---------------|
| 4/15/xx     | Cash in Banks                            | 1111           | \$40,000     |               |
|             | Other Community Services                 | 3911           | \$8,000      |               |
|             | Inventory for Resale                     | 1315           |              | \$48,000      |

Example 2: General Journal entries to record cost of supplies, materials and other miscellaneous costs of building the structure:

| <u>Date</u> | <u>General (Incidental) Fund Entries</u> | <u>A/C No.</u> | <u>Debit</u> | <u>Credit</u> |
|-------------|--|----------------|--------------|---------------|
| 4/15/xx     | Other Community Services                 | 3911           | \$48,000     |               |
|             | Cash in Banks                            | 1111           |              | \$48,000      |

Example 2: General Journal entries to record the sale of the structure and related loss (IF OCCURRING DURING THE SAME FISCAL YEAR AS THE EXPENDITURES):

| <u>Date</u> | <u>General (Incidental) Fund Entries</u> | <u>A/C No.</u> | <u>Debit</u> | <u>Credit</u> |
|-------------|--|----------------|--------------|---------------|
| 4/15/xx     | Cash in Banks                            | 1111           | \$40,000     |               |
|             | Other Community Services                 | 3911           |              | \$40,000      |

Example 2: General Journal entries to record the sale of the structure and related loss (OCCURRING DURING A DIFFERENT FISCAL YEAR AS THE EXPENDITURES):

| <u>Date</u> | <u>General (Incidental) Fund Entries</u> | <u>A/C No.</u> | <u>Debit</u> | <u>Credit</u> |
|-------------|--|----------------|--------------|---------------|
| 4/15/xx     | Cash in Banks                            | 1111           | \$40,000     |               |
|             | Prior Period Adjustment                  | 5195           |              | \$40,000      |

# Worksheet for the Calculation of Adjusted Expenditures



The purpose of the \$162,326 or 7% x SAT x WADA Transfer is to provide a limited source of district funds for capital outlay as a transfer from the General (Incidental) Fund to the Capital Projects Fund to cover expenditures incurred in the Capital Projects Fund. Section 165.011, RSMo, specifically states a district in compliance with Section 163.031.6, RSMo may transfer from the General (Incidental) Fund to the Capital Projects Fund amounts necessary for capital outlay expenditures. If the transfer is in excess of adjusted expenditures, the board must pass a resolution identifying the specific projects and the estimated expenditure date (or dates).

The amount of transfer allowed is not compared to the gross amount of expenditures in the Capital Projects Fund but rather to the “adjusted” expenditure amount calculated as explained above. This calculation identifies and subtracts from total capital projects expenditures all sources of revenue specifically received for capital outlay purposes. Once these sources have been identified and backed out of total expenditures, the remainder is the amount expended for capital outlay not covered by other revenue sources that may be covered by the \$162,326 or 7% x SAT x WADA transfer.

**Note: This calculation only applies to those districts not in compliance with certificated salaries for the preceding year.**

Part III-C, 9999, Total Expenditures, Capital Projects Fund:

|   |              |           |
|---|--------------|-----------|
|   | <b>Minus</b> | _____     |
| Expenditures for building projects from bond proceeds   |              | ( _____ ) |
|   | <b>Minus</b> |           |
| Expenditures for building projects funded by impact aid proceeds  |              | ( _____ ) |
|   | <b>Minus</b> |           |
| Amount of principal and interest for Lease Purchases entered into after January 1, 1997 not covered by a tax levy (excluding buses and office copiers): |              | ( _____ ) |
|   | <b>Minus</b> |           |
| Revenue received from levy set in <u>Capital Projects Fund</u> :  |              |           |
| Revenue Code  |              |           |
| 5111, Current Taxes   |              | ( _____ ) |
| 5112, Delinquent Taxes  |              | ( _____ ) |
| 5114, Financial Institution Taxes   |              | ( _____ ) |
| 5115, M & M Surtax  |              | ( _____ ) |
| 5116, In Lieu of Tax  |              | ( _____ ) |
| 5221, State Assessed Railroad and Utility Taxes   |              | ( _____ ) |
|   | <b>Minus</b> |           |

Part I-A Transfers:

|                                   |              |           |
|-----------------------------------|--------------|-----------|
| 005, Area Vo-Tec Schools Transfer |              | ( _____ ) |
| 006, Grant Match Transfer         |              | ( _____ ) |
| 007, Energy Conservation Transfer |              | ( _____ ) |
| 008, Food Services Transfer       |              | ( _____ ) |
| 009, Student Activities Transfer  |              | ( _____ ) |
| 013, Safety and Security Transfer |              | ( _____ ) |
|                                   | <b>Minus</b> |           |

Amounts directly received into the Capital Projects Fund, state and federal receipts.

|                                       |  |           |
|---------------------------------------|--|-----------|
| Part II, Revenue:                     |  |           |
| State receipts in 5399 (minus 5319)   |  | ( _____ ) |
| Federal receipts in 5499 (minus 5411) |  | ( _____ ) |
|                                       |  | -----     |

**“ADJUSTED” EXPENDITURE AMOUNT**

\_\_\_\_\_

**The Department of Elementary and Secondary Education  
Calculated Maximum \$162,326 or 7% x SAT x WADA Transfer\***

\_\_\_\_\_

\*If the transfer is in excess of adjusted expenditures, the board must pass a resolution identifying the specific projects and the estimated expenditure date (or dates).

This page is reserved for future use.