Advanced Funding Accounting Procedures

Missouri
DEPARTMENT OF ELEMENTARY & SECONDARY
EDUCATION™

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. <u>These funds can be obtained from the trustee when needed by each participant upon reasonable notice.</u>

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: [1] $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	[2] $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
Total Earnings From Temporary Deposits				**$38,885.23**

Disbursement Fund Balance	$669,225.33
Less Note Repayment Obligation	[3] ($711,093.75)
Gross Surplus/(Deficiency)	($41,868.42)
Plus Earnings From Temporary Deposits	$38,885.23
Surplus/(Deficiency)	**($2,983.19)**

On February 1, 20xx the district must deposit:

Net Disbursement Repayment	$669,181.50
Deficiency	$2,983.19
Total wire amount due from the district	**$672,164.69**

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	**$38,885.23**
Borrowing Cost	
Note Amount	$675,000.00
Note Repayment Obligation	($711,093.75)
District Borrowing Cost (Interest Paid)	**$36,093.75***

Application of Funds	
Note Amount	[1] $675,000.00
Less Costs of Issuance	($9,207.00)
Less Underwriter's Discount	($918.00)
Plus Premium	$4,306.50
Equals the Net Purchase of District Note	[2] $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	[3] ($711,093.75)
Equals the Surplus/(Deficiency)	**($2,983.19)**

* Before accounting for premium on initial transaction.

[1] Note Amount is the amount borrowed.
[2] Net Purchase of District Note is the Note Amount less the Costs of Issuance less the Underwriter's Discount plus the Premium.
[3] Note Repayment Obligation is the amount necessary to repay the amount of the district's share of the principal and interest to ue on the Authority notes.

Journal Entries

Note Amount	[1] $675,000.00
Costs of Issuance	$9,207.00
Underwriter's Discount	$918.00
Premium	$4,306.50
Net Purchase of District Note	[2] $669,181.50
Costs of Issuance Refund	$43.83

[1] & [2] see footnote on prior page.

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

Date	Description	A/C No.	Debit	Credit
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:

Date	Description	A/C No.	Debit	Credit
10/27/xx	Cash In Banks	1111	$400,000.00	
	Other Investments	1149		$400,000.00

Date	Description	A/C No.	Debit	Credit
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:

Date	Description	A/C No.	Debit	Credit
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:

Date	Description	A/C No.	Debit	Credit
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):

Date	Description	A/C No.	Debit	Credit
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):

Date	Description	A/C No.	Debit	Credit
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:

Date	Description	A/C No.	Debit	Credit
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:

Part	Code	Description	Amount
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