MOHEFA Direct Deposit Program

Missouri
DEPARTMENT OF ELEMENTARY & SECONDARY
EDUCATION™

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:

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

General Journal entry to record direct deposit amount:

Date	Debt Service Fund Entry	A/C No.	Debit	Credit
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:

Date	General (Incidental) Fund Entry	A/C No.	Debit	Credit
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.

Date	Debt Service Fund Entry	A/C No.	Debit	Credit
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:

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

Date	Debt Service Fund Entry	A/C No.	Debit	Credit
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:

Date	General (Incidental) Fund Entry	A/C No.	Debit	Credit
7/15/xx	Cash in Banks	1111	$7,000	
	Due From Debt Service	1296		$7,000

Date	Debt Service Fund Entry	A/C No.	Debit	Credit
7/15/xx	Due To General Fund	2182	$7,000	
	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:

Date	Debt Service Fund Entry	A/C No.	Debit	Credit
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.):

Date	Debt Service Fund Entry	A/C No.	Debit	Credit
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.):

Date	Debt Service Fund Entry	A/C No.	Debit	Credit
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:

Date	General (Incidental) Fund or Debt Service Fund Entry	A/C No.	Debit	Credit
7/15/xx	Fees - Bonded Indebtedness	5311-6631	$9,000	
	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:

Date	Capital Projects Fund Entry	A/C No.	Debit	Credit
7/15/xx	Architecture, Engineering, and Legal Service/Buildings	4031-6521	$9,000	
	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:

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

Section F – Recording Excess Funds

If the district's escrow account appears to have more money in it then 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:

Date	Debt Service Fund Entry	A/C No.	Debit	Credit
1/1/xx	Cash in Banks	1111	$1,550	
	Escrowed Cash	1151		$1,550