

Best Practices for Construction Project Accounting and Reporting

 #iasboAC22



STRONGER TOGETHER. SMARTER TOGETHER.

Introductions

Name: Betsy Allen

- *Audit Principal, Miller, Cooper & Co., Ltd.*



Name: Robyn Cornelissen

- *Comptroller, Community Unit School District 300*



DISTRICT 300

Name: James Rachlin

- *President, Meristem Advisors LLC*

Meristem Advisors LLC



Agenda

- Introductions
- Five-year Forecast
- Construction Bonds 101
- Accounting for Bond Issuance and Transfers
- Construction Reporting
- Q & A



How Does Construction Impact Your Five-Year Forecast

- Meet with your Operations Manager regularly
- Plan accordingly to allow for the fiscal year split, if appropriate
- Plan accordingly for the architects and engineers (A&E) work done prior to construction.
- Make sure that a standard allowance for incidentals is included.
- Use a third party vendor or excel worksheet to track forecast.
- How are the projects being funded and what fund(s) will be utilized? Fund 20/60/90
- What are your cash needs and is a new bond necessary?

When Do I Borrow?

Borrowing is a way to pay for something over its useful life

- Makes sense when a significant cost for a long-lived asset
- All beneficiaries of the project pay for it
- Pay-as-you-go
 - Often not feasible due to construction cost inflation
 - Delays the benefits of a project

From a timing perspective

- Typically after costs are known
 - Wait until prices stabilize?
- Typically at start of construction
 - Consider interest rate risk versus cost of funds
 - 1% increase in rates increases DS by 9%

Overview of Long-term Borrowing Options*

	Backdoor Referendum	No Referendum
Levy for Debt Service	<p><u>Working Cash/ Funding Bonds</u></p> <ul style="list-style-type: none"> - Maximum amount determined by formula - Paid within DSEB - G.O. limited as to amount - Can exceed statutory debt limit 	<p><u>Life Safety Bonds</u></p> <ul style="list-style-type: none"> - Must be for approved life safety work - Paid from DSEB - G.O. Limited as to amount - Must fit in statutory debt limit
Pay from Operations (Education Fund or Operations and Maintenance)	<p><u>Alternate Revenue Bonds</u></p> <ul style="list-style-type: none"> - Available revenue source pledged - 1.25 times coverage required - G.O. unlimited as to rate or amount - Do not count against statutory debt limit 	<p><u>Debt Certificates</u></p> <ul style="list-style-type: none"> - Lease, but mostly just a borrowing - Interest cost may be slightly higher - Not backed by a levy - Count against statutory debt limit

*General Obligation Bonds approved at referendum are another way of borrowing with a levy, particularly for new buildings or very large projects.

Can You Levy Without Going to Referendum*?

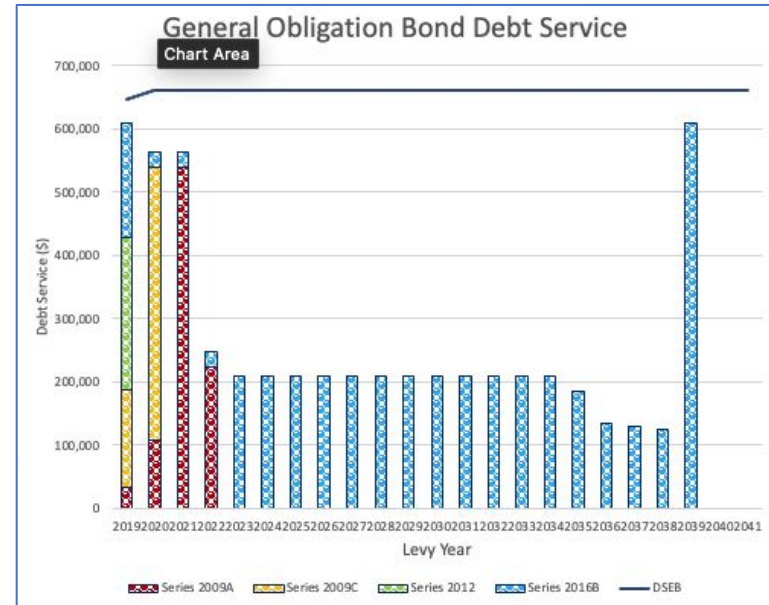
Statutory Debt Limit (% of EAV)

Working Cash Limit (85% of maximum O&M levy and PPRT)

Debt Service Extension Base (DSEB) for Tax Capped Districts

You can always opt to pay from operating revenues (caution: new buildings)

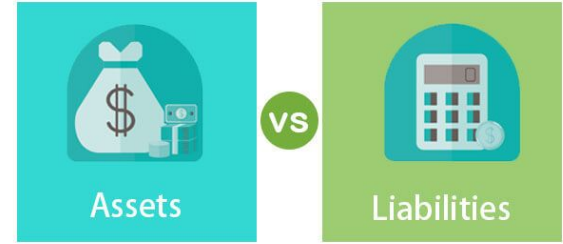
*Statutes almost always permit a route to borrowing



When you do borrow...

From an Accounting Perspective:

- Liability: The amount you borrowed
 - How much did you borrow, exactly?
- Asset: The Proceeds
 - Where do these go? What happens as I spend them?



From a Cash Perspective

- Proceeds: Need to be invested, managed and tracked
- Debt service obligation: Needs to go into the budget, factored into cash flow

Sources and Uses Tells You A Lot

Sources:	Tax-Exempt Series 2020A	Taxable Series 2020B	Total
Bond Proceeds:			
Par Amount	5,330,000.00	835,000.00	6,165,000.00
Premium/(Discount)	<u>279,558.73</u>	<u>0.00</u>	<u>279,558.73</u>
Total Sources	5,609,558.73	835,000.00	6,444,558.73
Uses:			
New Money Requirement	<u>5,414,802.67</u>	<u>768,461.35</u>	<u>6,183,264.02</u>
Total Requirement	5,414,802.67	768,461.35	6,183,264.02
Delivery Date Expenses:			
Cost of Issuance	110,397.85	47,232.15	157,630.00
Underwriter's Discount	45,172.50	18,311.25	63,483.75
Bond Insurance	<u>38,799.63</u>	<u>0.00</u>	<u>38,799.63</u>
Total	194,369.98	65,543.40	259,913.38
Other Uses of Funds:			
Additional Proceeds	<u>386.08</u>	<u>995.25</u>	<u>1,381.33</u>
Total Uses	5,609,558.73	835,000.00	6,444,558.73

So...How much did I borrow?*

Sources:	Tax-Exempt Series 2020A	Taxable Series 2020B	Total
Bond Proceeds:			
Par Amount	5,330,000.00	835,000.00	6,165,000.00
Premium/(Discount)	279,558.73	0.00	278,756.06
Total Sources	5,609,558.73	835,000.00	6,443,756.06
Uses:			
New Money Requirement	5,414,000.00	770,000.00	6,182,000.00
Total Requirement	5,414,000.00	770,000.00	6,182,000.00
Delivery Date Expenses:			
Cost of Issuance	110,397.85	47,232.15	157,630.00
Underwriter's Discount	45,172.50	18,311.25	63,483.75
Bond Insurance	38,799.63	0.00	38,799.63
Total	194,369.98	65,543.40	259,913.38
Other Uses of Funds:			
Additional Proceeds	386.08	1,456.60	1,842.68
Total Uses	5,608,756.06	835,000.00	6,443,756.06

What do I do with the money?

From an accounting perspective, consider the purpose of the borrowing:

- Working cash proceeds have to go into the Working Cash Fund
 - From there into the Operations and Maintenance Fund or directly into Capital Projects Fund
- Other types of bonds may go directly into the Capital Projects Fund
- Talk to your bond attorney about where to account for this money and transfer requirements

What do I do with the money?

From a cash management perspective, do you prefer to segregate or co-mingle proceeds?

- Segregating with a separate bank account facilitates tracking for tax and IRS audit purposes
 - Allows clear evidence of interest earned and expenditure of proceeds
- Co-mingling simplifies bookkeeping
 - Interest calculations are less precise since an allocation must be made

Budget Debt Service into and from a Debt Service Fund

- Depending on borrowing type, may be directly from Education, O&M or Debt Service fund

Accounting for Bond Issuance

Administrative Code – “The New IPAM”

- 23 Illinois Administrative Code 100
 - Establishes the requirements for school district budgets and account (provides a chart of accounts)

ISBE	23 ILLINOIS ADMINISTRATIVE CODE 100	
	SUBTITLE A	SUBCHAPTER c
TITLE 23: EDUCATION AND CULTURAL RESOURCES		
SUBTITLE A: EDUCATION		
CHAPTER I: STATE BOARD OF EDUCATION		
SUBCHAPTER c: FINANCE		
PART 100		
REQUIREMENTS FOR ACCOUNTING, BUDGETING, FINANCIAL REPORTING, AND AUDITING		

Accounting for Bond Issuance

Which fund will the transaction be posted?

- Dependent upon the type of debt issued
- Ask your auditor for assistance with entry or to review entry
- Obtain FINAL closing memorandum (sources/uses of funds)
 - Par amount of bonds
 - Cost of issuance (includes underwriter's discount)
 - Premium/Discount

Accounting for Bond Issuance

SOURCES OF FUNDS:

Certificates Proceeds

Par Amount

\$5,870,000.00

Plus: Reoffering Premium

\$659,864.80

Less: Underwriter's Discount

(\$22,012.50)

TOTAL SOURCES OF FUNDS:

\$6,507,852.30

Accounting for Bond Issuance

USES OF FUNDS:

<u>Project Fund:</u>		\$6,402,276.04
Rounding Amount (Available for Projects)	\$2,276.04	
Deposit to Project Fund	<u>\$6,400,000.00</u>	
	<u>\$6,402,276.04</u>	

Accounting for Bond Issuance

Costs of Issuance:

		\$85,948.13
Chapman and Cutler LLP (Disclosure Counsel)	\$12,000.00	
Chapman and Cutler LLP (Bond Counsel)	\$26,500.00	
S&P Global Ratings (Rating Agency)	\$15,000.00	
Amalgamated Bank of Chicago (Paying Agent)	\$950.00	
S&P Global Market Intelligence (CUSIP)	\$443.00	
Arthur J. Gallagher & Co. (Surety Bond)	\$1,223.00	
PMA Securities, LLC (Financial Advisor)	\$26,332.13	
PMA Securities, LLC (OS Production, Due Diligence, Distribution and Posting)	<u>\$3,500.00</u>	
	<u>\$85,948.13</u>	

Stifel, Nicolaus & Company, Inc. wire to Assured Guaranty Municipal Corp for insurance premium: \$19,628.13

TOTAL USES OF FUNDS:

\$6,507,852.30

Accounting for Bond Issuance

	Dr.	Cr.
Cost of issuance	127,588.76	
Cash	6,402,276.04	
Debt issuance		5,870,000.00
Premium on debt issuance		659,864.80
	6,529,864.80	6,529,864.80

Accounting for Bond Issuance

Bond Entry Account Descriptions:

- Cost of Issuance – Expenditure
- Cash – Asset
- Debt Issuance (Par Amount) – Other Financing Source
- Premium on Debt Issuance – Other Financing Source

Debt Service Fund

Fund is required if taxes are levied to retire bond principal and interest or if other revenue is pledged to pay principal and interest on other long-term liabilities

Accounting for Transfers

Debt Service Fund

- When revenues or other sources are pledged to pay debt service on any long-term debt, the moneys shall be transferred into the Debt Service Fund (Administrative Code)
 - Accomplished by a permanent transfer to Debt Service Fund

???? Resolution or No Resolution ????

Accounting for Capital Projects

Operations & Maintenance Fund vs. Capital Projects Fund

- When revenues or other sources are pledged to pay for a capital project or acquisition, the moneys shall be transferred into the Capital Projects Fund, except in case of acquisition of any equipment that must be financed from the Transportation Fund (Administrative Code)

**THERE IS NO ISBE THRESHOLD REQUIREMENT
FOR CAPITAL PROJECTS**

Accounting for Capital Projects

Operations & Maintenance Fund vs. Capital Projects Fund

- Accomplished by a permanent transfer to Capital Projects Fund
- Be sure to only transfer the amount needed to fund the project.

???? Resolution or No Resolution ????

Construction-Related Reporting

- Budget worksheet by project
 - Both general contractor and other vendors
 - Track actual vs. budget on a monthly basis
 - Track invoices paid
 - Have a contingency plan for incidental expenses
 - Meet with Director/Admin regularly
- Bond-recordkeeping requirements
 - IRS compliance



Construction-Related Reporting (continued)

- Construction-in-Progress (CIP) worksheet
 - End-of-year analysis and part of audit process
 - Completed projects to report fixed assets
 - Identifies capital project liabilities going forward into next FY - assists with budget process
 - Sample CIP - [CIP](#)

Construction-Related Reporting (continued)

CIP auditor summary

	Balance July 1, 2019	Increases / Transfers	Decreases / Transfers	Balance June 30, 2020
Capital assets, not being depreciated				
Land	\$ 6,617,294	\$ 253,399	\$ -	\$ 6,870,693
Construction in progress	24,992,543	21,998,196	27,768,288	19,222,451
Total capital assets, not being depreciated	31,609,837	22,251,595	27,768,288	26,093,144
Capital assets, being depreciated				
Improvements other than buildings	11,159,070	854,378	-	12,013,448
Buildings	98,471,254	26,674,107	-	125,145,361
Equipment	14,683,330	1,110,360	29,542	15,764,148
Vehicles	1,211,254	-	-	1,211,254
Total capital assets, being depreciated	125,524,908	28,638,845	29,542	154,134,211
Less accumulated depreciation for:				
Improvements other than buildings	5,652,274	782,224	-	6,434,498
Buildings	39,802,932	2,813,898	-	42,616,830
Equipment	9,308,379	620,958	21,725	9,907,612
Vehicles	922,217	67,112	-	989,329
Total accumulated depreciation	55,685,802	4,284,192	21,725	59,948,269

Construction-Related Reporting (continued)

Construction Commitments

- Projects that have been approved by the Board of Education prior to year end, but NOT started until after year end
 - Footnote disclosure in financial statements
 - Prepare schedule for auditor



*Questions??
We thank you for your time!*

Presenters:

PANELISTS INFO:

Betsy Allen, Audit Principal, Miller, Cooper & Co., Ltd.
(847) 527-1117; ballen@millercooper.com

Robyn Cornelissen, Comptroller, Community Unit School District 300
(847) 551-8429; robyn.cornelissen@d300.org

James Rachlin, President, Meristem Advisors LLC
(773) 677-3653; jnrachlin@meristemadvisors.com