

Best Practices for Construction Project Accounting and Reporting

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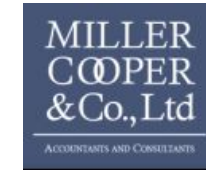


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Introductions

Name: Lindsey Fish, Moderator
- *Principal, Sikich CPA LLC*

Name: Betsy Allen, Speaker
- *Audit Principal, Miller Cooper & Co., Ltd.*



Name: Robyn Cornelissen, Speaker
- *Director of Business Services, Elmhurst CUSD 205*



Name: James Rachlin, Speaker
- *President, Meristem Advisors LLC*



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Agenda

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



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 **2025**
ANNUAL
CONFERENCE

CELEBRATING
75
YEARS

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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?

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Overview of Long-term Borrowing Options

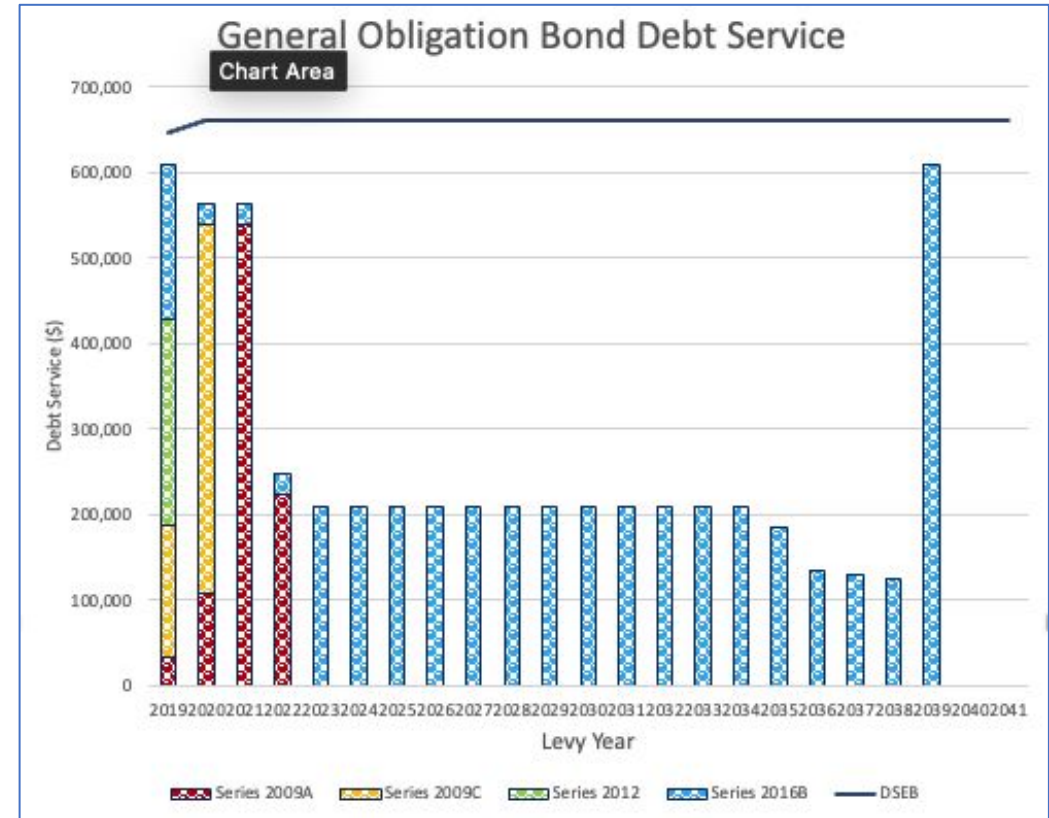
	Backdoor Referendum	No Referendum
Levy for Debt Service*	<u>Working Cash/ Funding Bonds</u> <ul style="list-style-type: none"> - Maximum amount determined by formula - Paid within DSEB - G.O. limited as to amount - Can exceed statutory debt limit 	<u>Life Safety Bonds</u> <ul style="list-style-type: none"> - Must be for approved life safety work - <u>Now exempt from DSEB</u> - G.O. Limited as to amount - Must fit in statutory debt limit
Pay from Operations (Education Fund or Operations and Maintenance)	<u>Alternate Revenue Bonds</u> <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 	<u>Debt Certificates</u> <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.

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

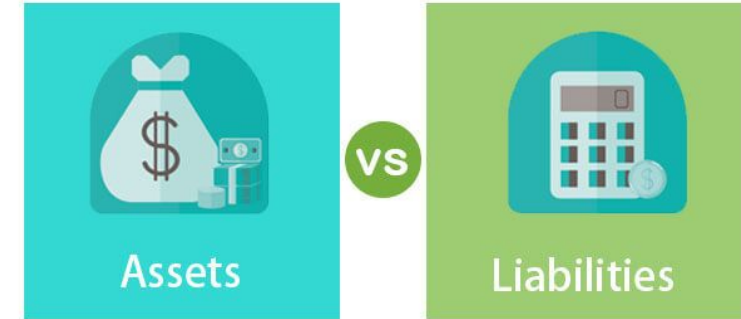
*Statutes almost always permit a route to borrowing



When you 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 2025A	Taxable Series 2025B	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 2025A	Taxable Series 2025B	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>278,756.06</u>
Total Sources	5,609,558.73	835,000.00	6,443,756.06
Uses:			
New Money Requirement	<u>5,414,000.00</u>	<u>770,000.00</u>	<u>6,182,000.00</u>
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	<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>1,456.60</u>	<u>1,842.68</u>
Total Uses	5,608,756.06	835,000.00	6,443,756.06

***What's the liability?**

***What's the asset?**

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

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 -

- 23 Illinois Administrative Code 100
 - Establishes the requirements for school district budgets and accounts (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 (3)

Plus: Reoffering Premium

\$659,864.80 (4)

Less: Underwriter's Discount

(\$22,012.50) (1)

TOTAL SOURCES OF FUNDS:

\$6,507,852.30

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Accounting for Bond Issuance

USES OF FUNDS:

Project Fund:	\$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> (2)

Accounting for Bond Issuance

Costs of Issuance:		\$85,948.13 (1)
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)	\$3,500.00	
	<u>\$85,948.13</u>	
Stifel, Nicolaus & Company, Inc. wire to Assured Guaranty Municipal Corp for insurance premium:		\$19,628.13 (1)
TOTAL USES OF FUNDS:		<u>\$6,507,852.30</u>

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Accounting for Bond Issuance

	Dr.	Cr.
Cost of issuance (1)	127,588.76	
Cash (2)	6,402,276.04	
Debt issuance (3)		5,870,000.00
Premium on debt issuance (4)		659,864.80
	6,529,864.80	6,529,864.80

Accounting for Bond Issuance

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 Bond Issuance

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 Debt Service Fund

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

Be sure to only transfer the amount needed to fund the project.

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
- Tax Exempt bond-recordkeeping requirements
 - IRS compliance



Construction-Related Reporting

- 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

Construction-Related Reporting

Construction- In-Progress As of June 30, 2020												
										<u>Capital Asset</u>	<u>District Liability Balance plus Retainage</u>	
							Related to FY20					
Main GC	Project #	Account #	Fund	Description of Work	Contract/Budget Amount	Completed and Stored at in 06/30/19 (PY FY)	FY20 Amounts Already Paid	AP Accrual	Retainage Payable	Completed and Stored at 6/30/20 (inc retainage)	Balance to Finish (Doesn't Include Retainage)	% completion
IHC CONSTRUCTION COMPANIES, LLC	1352	20-5520-000000-2530-1352-576-009-0000-	20	Example #1	\$ 253,948.00	\$ -	\$ 219,989.65	\$ -	\$ -	\$ 219,989.65	\$ -	100%
Other Vendors					\$ 10,000.00	\$ -	\$ 4,017.92	\$ -	\$ -	\$ 4,017.92	\$ -	
MECHANICAL CONCEPTS OF ILLINOIS INC	0205	90-5520-000000-2530-0205-576-089-0000-	90	Example #2	\$ 872,000.00	\$ -	\$ 20,934.00	\$ 250,505.14	\$ 30,159.90	\$ 301,599.04	\$ 600,560.86	39%
Other Vendors		20-5520-000000-2530-0205-576-089-0000-	20		\$ 73,900.00	\$ -	\$ 61,942.81	\$ 2,223.60	\$ -	\$ 64,166.41	\$ 9,733.59	
F. H. Paschen	0237	20-5520-000000-2530-0237-576-087-0000-	20	Example #3	\$ 4,614,777.00	\$ -	\$ 2,956,566.96	\$ -	\$ 328,507.44	\$ 3,285,074.40	\$ 1,658,210.04	64%
Other Vendors					\$ 1,303,284.54	\$ -	\$ 474,021.99	\$ 15,016.83	\$ -	\$ 489,038.82	\$ 814,245.72	

Sample CIP Report –
Provided upon request

	\$ 75,418,790.21		\$ 35,421,589.63	\$ 6,857,478.83	\$ 2,128,539.80	\$ 18,960,597.30
FY19 projects	\$ 42,173,538.32	\$ 13,520,348.90	\$ 23,645,022.81	\$ 1,143,703.21	\$ 716,466.48	
FY20 projects	\$ 33,245,251.89		\$ 11,776,566.82	\$ 5,713,775.62	\$ 1,412,073.32	\$ 21,089,137.10
FY19 projects		\$ 3,864,463.40				
FY20 projects		\$ 15,754,909.45				

Construction-Related Reporting

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

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 and Answers

We thank you for your time!

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Presenters:

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