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Bonded Construction Funds and Sinking Funds

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Learning Objectives

- Bonded Construction Fund and Sinking Fund requirements (The Revised School Code)
- Audit Approach
- Tips for a Successful Audit
- Numbered Letter 2023-1 – Bulletin 7 replacement!
 - Overview of changes

Bonded Construction Funds

MCL 380.1351a (Revised School Code)

Authorizes district to issue bonds to defray capital expenditures;
NOT maintenance

“.. For cost of purchasing, erecting, completing, remodeling, or equipping or reequipping, except for equipping or reequipping for technology, school buildings, including library buildings, structures, athletic fields, playgrounds.....etc”

Not allowed: OS or application software upgrades/support, media, training/consulting, service contracts

Defines “Technology”

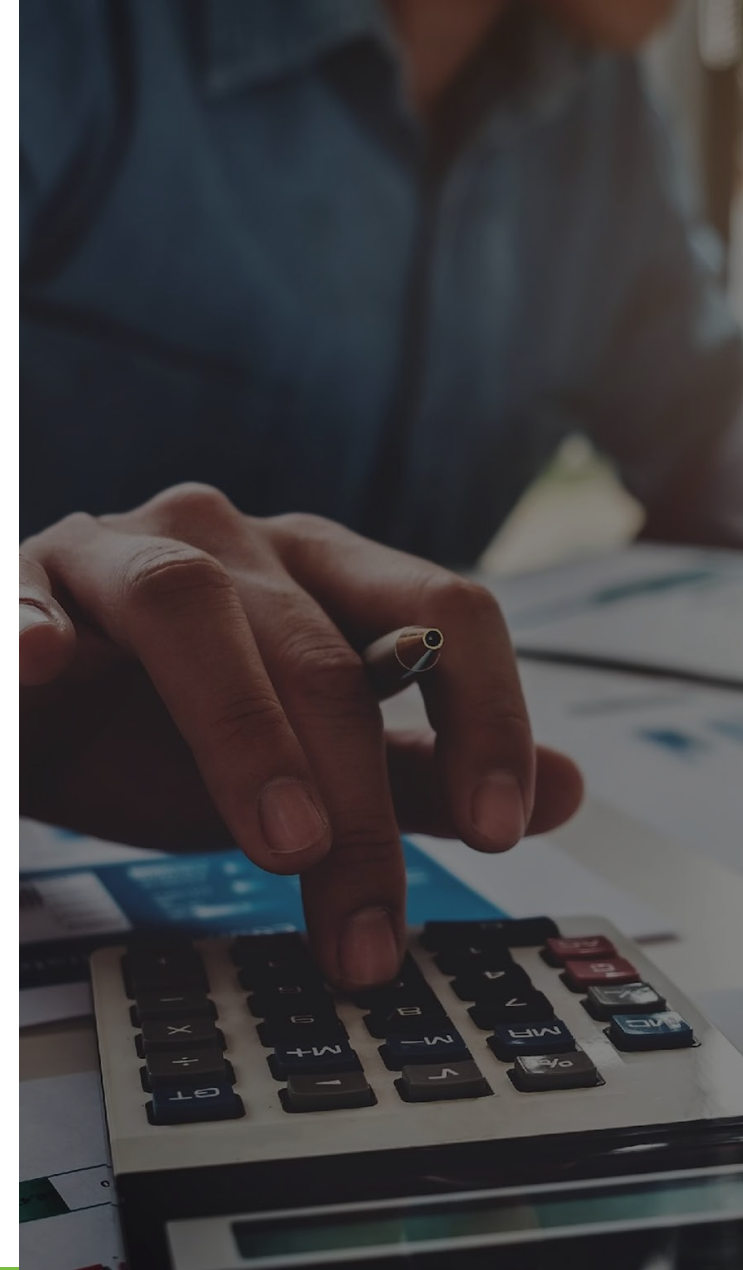
- Hardware that “transmit, receive, or compute information for pupil instruction
- Initial purchase –OS and/or application software
- Costs of design/installation

Mandates audit

Bonded Construction Funds

Other Applicable legislation:

- MCL 380.1267 – Competitive Bidding
 - Construction, renovation, repair, or remodeling of school buildings
 - Requires district to obtain competitive bids on all material and labor
 - Bid advertising requirements
 - Board approvals and involvement
- MCL 380.1274 – Competitive Bidding
 - Supplies, materials, and equipment for school buildings
 - *Establishes bidding threshold (updated with CPI annually)
 - Exclusions: DTMB Cooperative Bulk Purchasing Program; food costs
 - Defines “Michigan-based business”, can give preference (establish policy)



Bonded Construction Funds

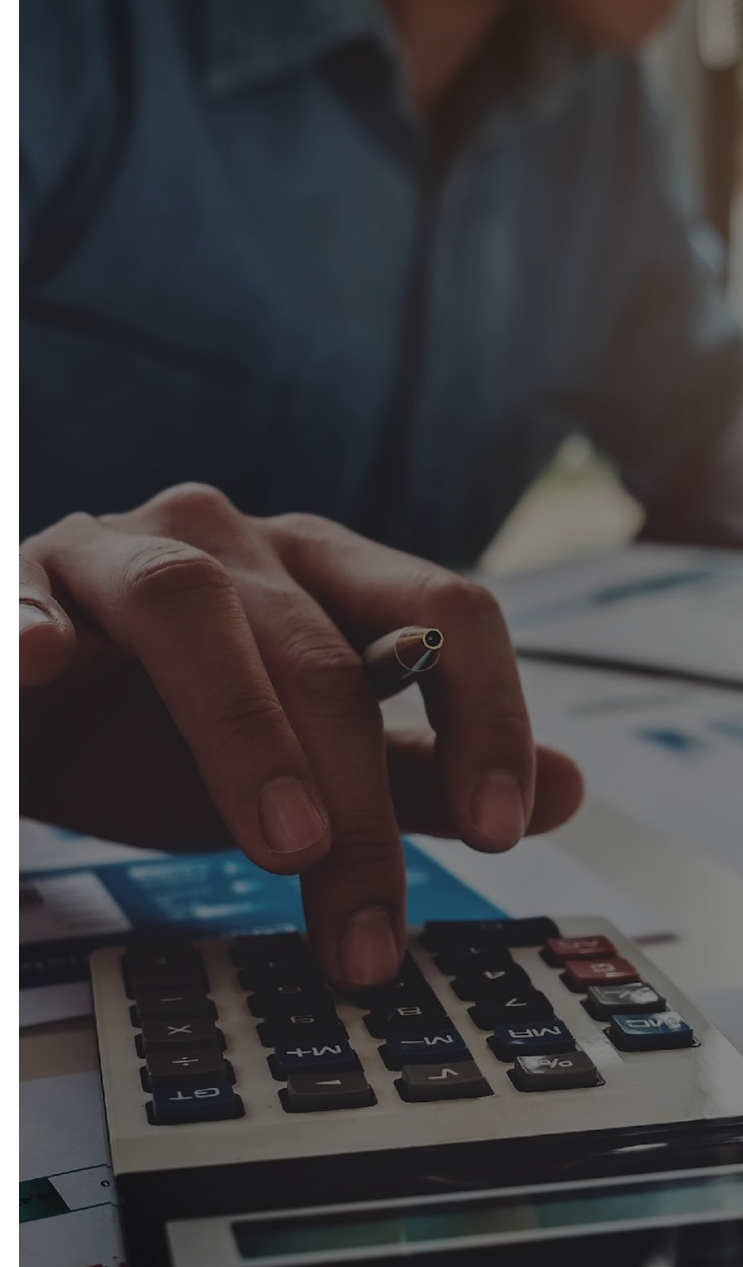
Reporting

Annually

- Annual audit report modified for compliance
- Capital projects fund presented in financial statements
- **Certification letter** must be submitted to Treasury annually, on November 1.

Cumulative

- Issued under separate cover from annual audit report
- Statement of income/expenditures for entire bond period
- **Certification letter** due November 1, in year
- Capital projects fund presented in annual financial statements



Bonded Construction Funds

Audit Approach

Gather Documentation

- Board approval of issuance
- Treasury approval of Preliminary Application for Bond Qualification (if applicable)
- Official statement, other bond documents

Financial Audit Procedures

- Expenditure testing - in accordance with stated bond purpose?
- Reliance on controls over financial reporting in annual financial audit
- Use of remaining proceeds (MCL 388.1938)

Competitive Bidding

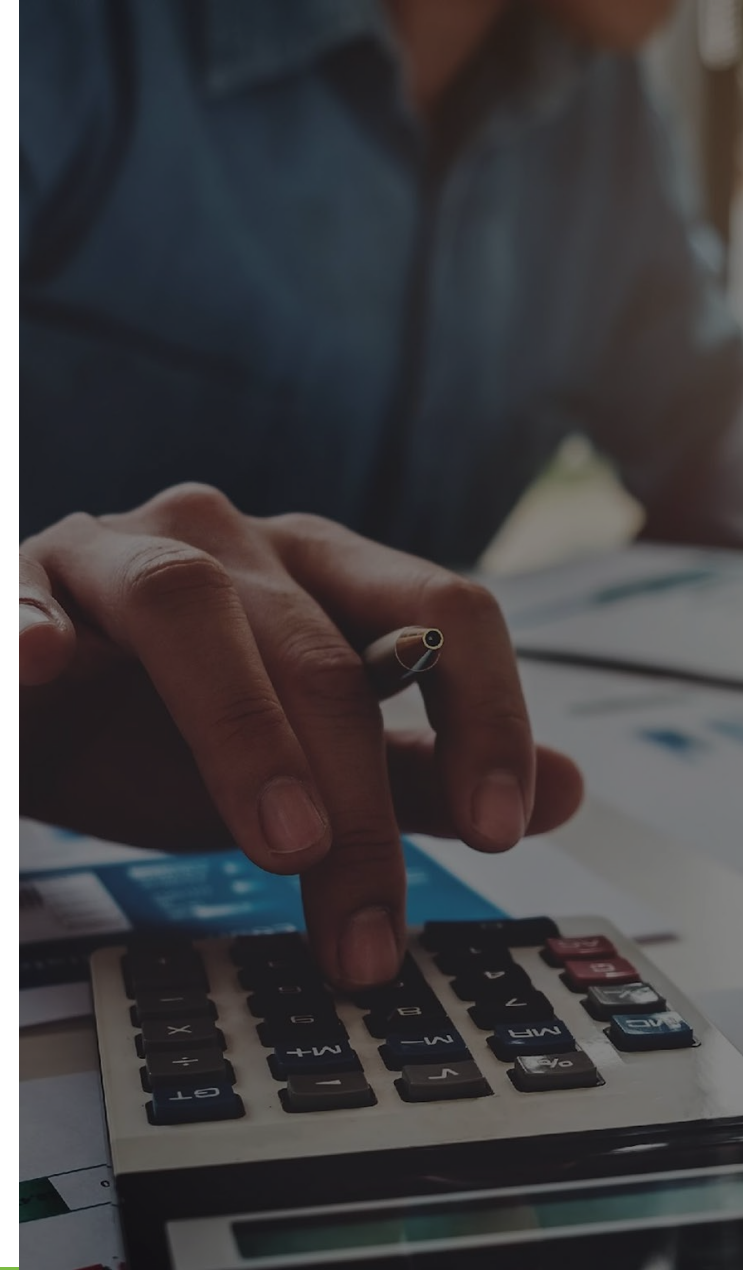
- Sample contractors to determine if requirements met
- MCL 380.1267 & 380.1274
- \$29,572 threshold for FY24

- Pay down bond debt
- Repay the state
- If #1 or #2 adversely affects federal tax treatment of interest...to pay for project enhancements (ask your lawyers!)

Bonded Construction Funds

Tips for a successful audit

- Talk with your auditor
 - Reporting preference
 - Testing approach for competitive bidding
- Detailed accounting - utilize chart of accounts
 - Clean presentation of bond expenditures in the audit report
- Keep EVERYTHING
- Crossover with annual audit of capital projects fund:
 - CIP Tracking
 - No one way; think of eventual individual assets
 - New capital asset additions
- *****COMPETITIVE BIDDING*****
 - Establish relationship with CM; ask for support (repeatedly 😊)



Bonded Construction Funds

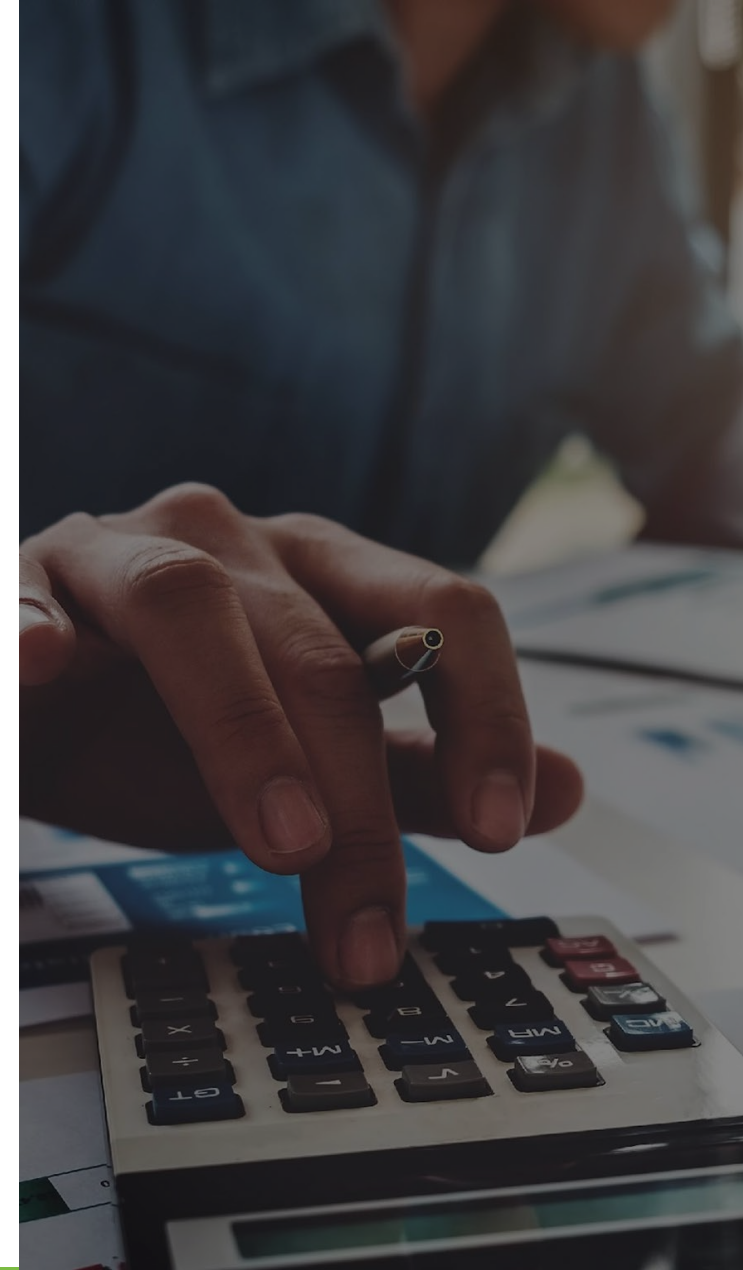
Numbered Letter 2023-1: Key Changes

- Bond Series can be combined in audit
 - If series being audited “were for the same project approved by school electors at the same election”
 - No formal request to Treasury needed
- **Due Date**
 - WAS: 150 days after “substantial completion”, i.e. date at which remaining proceeds are less than 5% of original bond issuance, and all planned projects have been completed.
 - NOW: Later of:

June 30 immediately following date of Certificate of Substantial Completion

OR

June 30 immediately following date when 95% or more of the bond proceeds have been expended



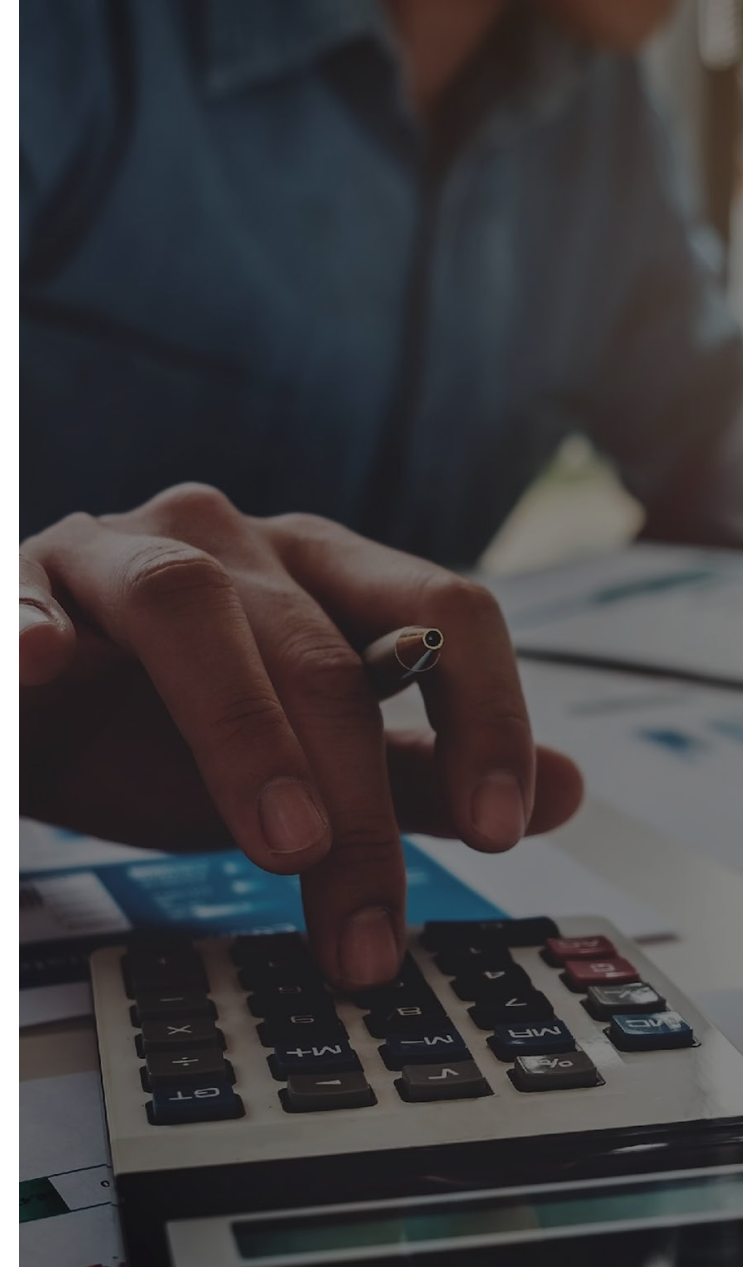
Bonded Construction Funds

Substantial completion form received May 1, 2024; 92% of bond expended. 95% expended on August 1, 2024

- Due with FY25 audit reports (11/1/25)
- Can't be "substantially complete" if less than 95%

Substantial completion form received July 1, 2024; 98% of bond expended.

- Due with FY25 audit reports (11/1/25)



Sinking Funds

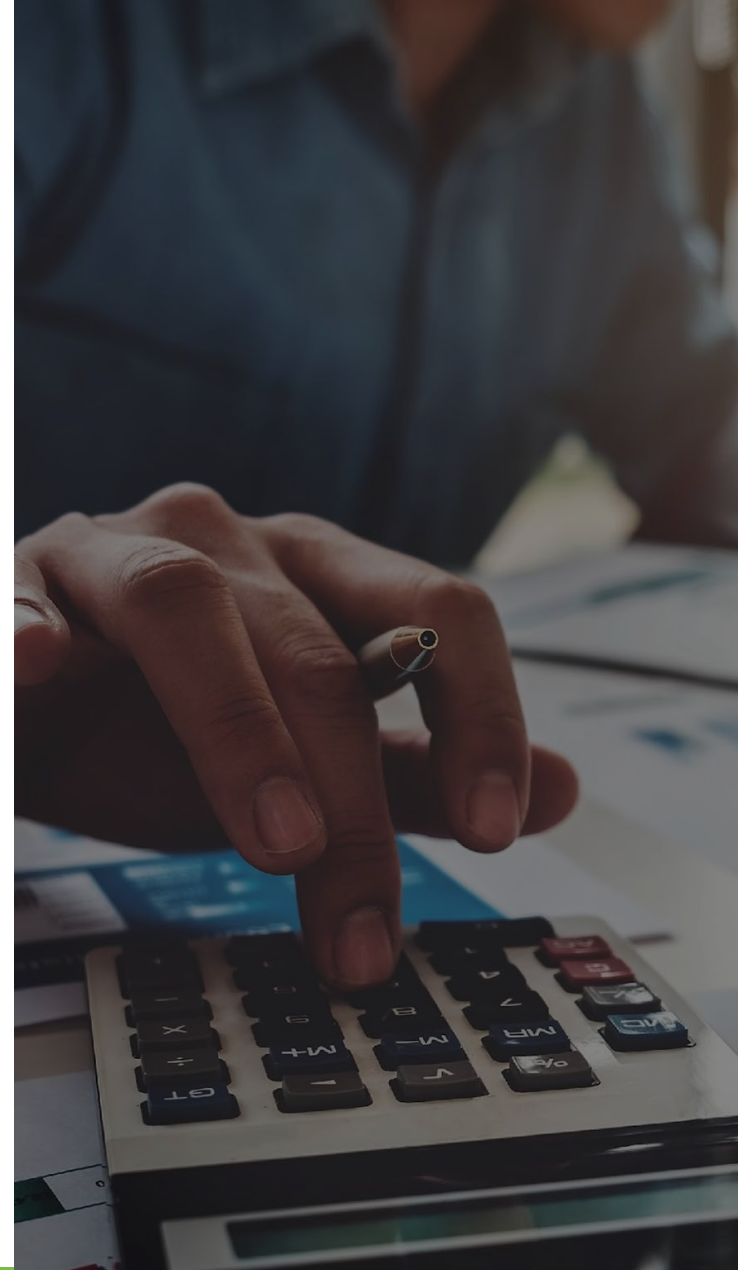
Sinking Funds

MCL 380.1212 (Revised School Code)

Authorizes school district to levy tax on real and personal property- establish sinking fund

Defines allowable uses

Mandates audit

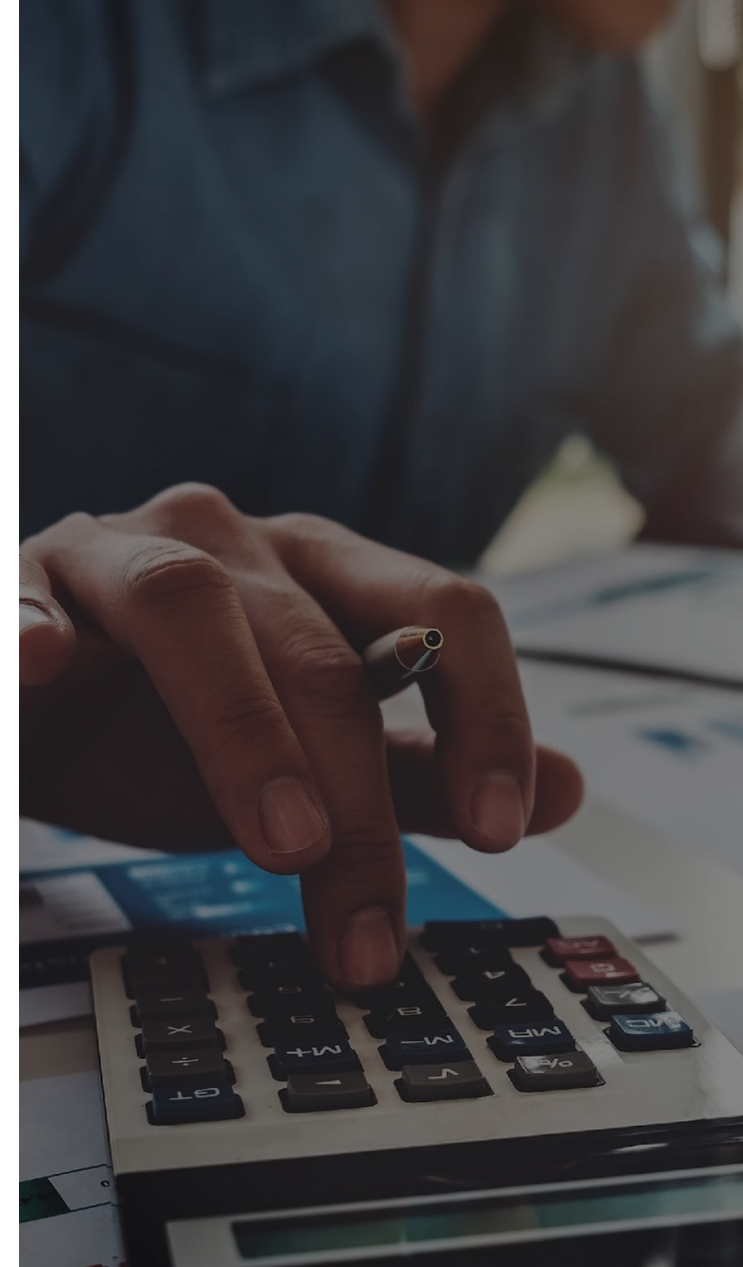


Sinking Funds

Allowable Use Consideration

Sinking Funds	Prior to 3/29/17	3/29/17 - 5/7/23	After 5/7/2023
Maximum Levy	5 mills	3 mills	3 mills
Maximum Period	20 years	10 years	10 years
*Allowable Use Categories:			
Purchase of Real Estate	YES	YES	YES
New Construction	YES	YES	YES
Repairs	YES	YES	YES
Security Improvements	NO	YES	YES
Technology	NO	YES	YES
Student Transportation Vehicles	NO	NO	YES
Trucks and Vans	NO	NO	YES

**Contact bond counsel for specific allowable use guidance*



Sinking Funds

Audit Approach

Planning

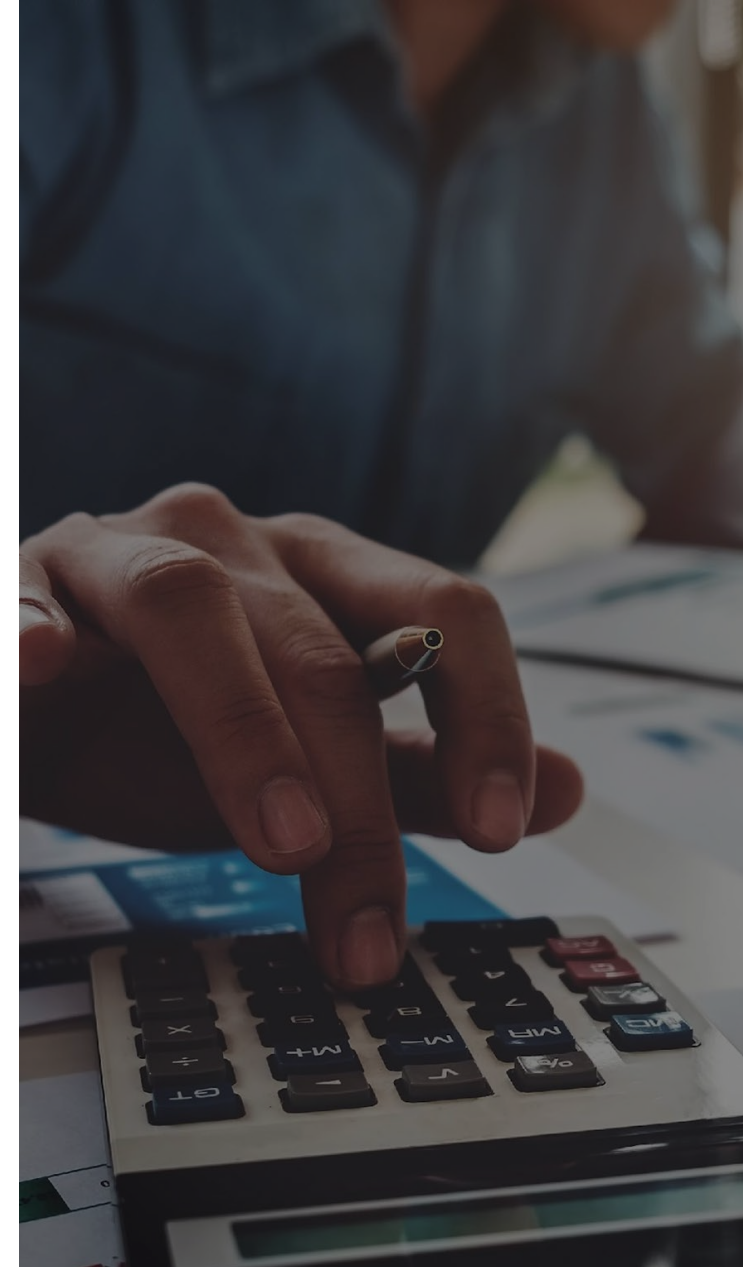
- Sinking fund millage approval date (drives allowable use testing)
- Controls over compliance; business office oversight
- Sampling

Compliance Testing

- Allowable use?
- Consider old Treasury opinion letters
- Assess compliance with laws and regulations...procurement

Modify Report

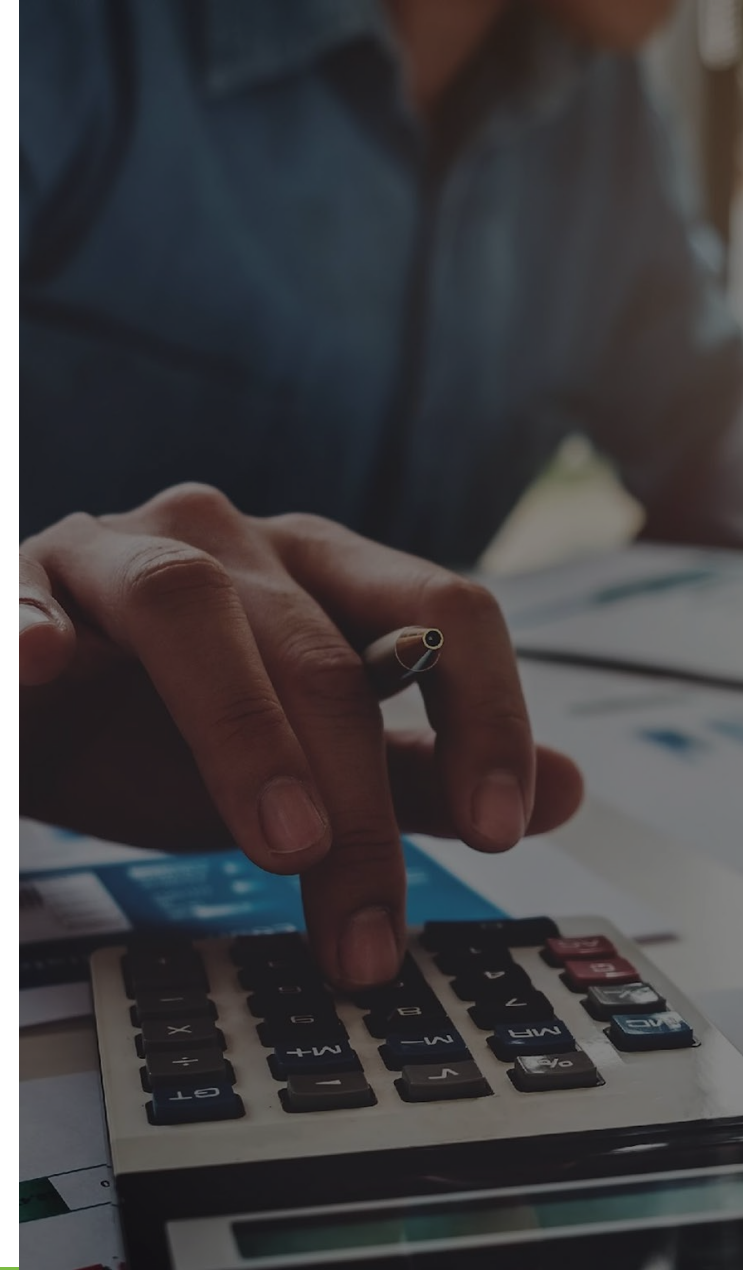
- Add necessary disclosures for results of testing, annually
- If noncompliance, move expenditures and consider need for audit finding



Sinking Funds

Tips for a successful audit

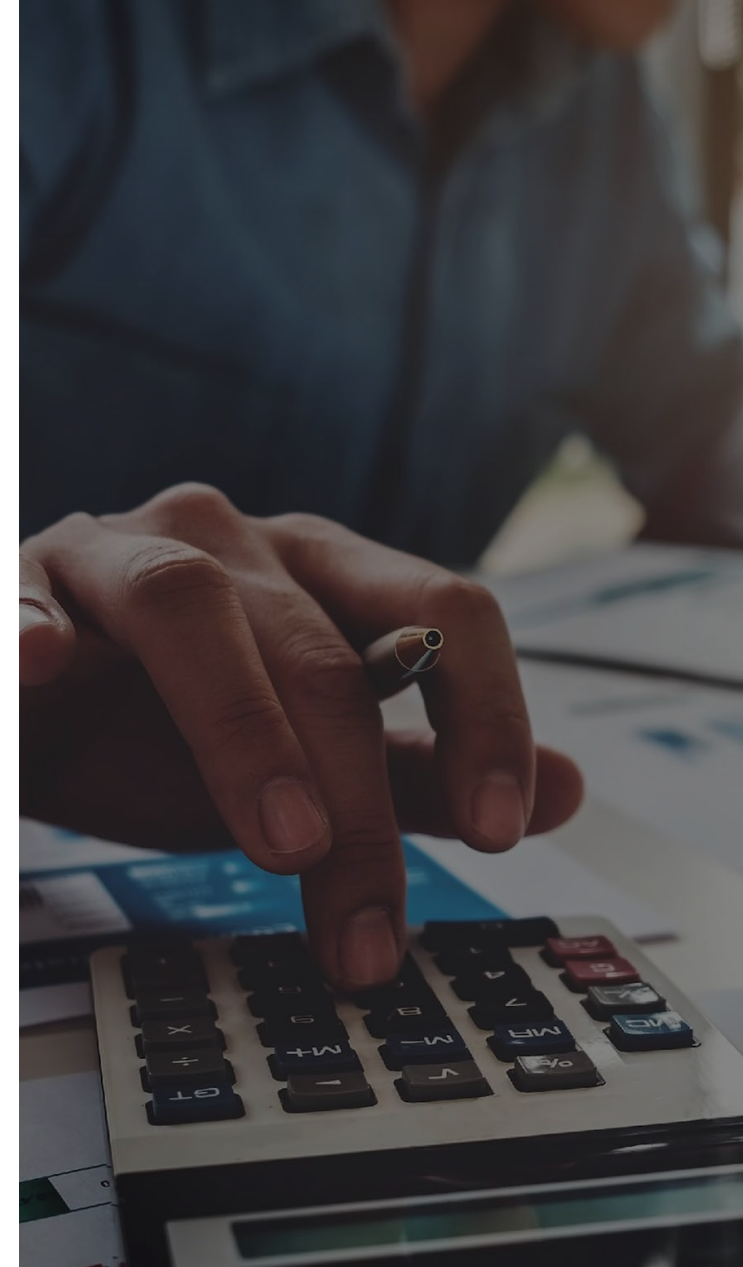
- Ensure controls in business office over compliance of all sinking fund expenditures; approval processes
- Questionable charge?
 - Reference Treasury opinion letters
 - Inquire with auditor or obtain legal opinion, if needed
- Detailed expenditure descriptions in GL; may reduce testing



Numbered Letter 2023-1

RECAP OF CHANGES

- Multiple Bond Series? Only one audit...no need to ask for approval!
- Audit deadline change – due with June 30 annual reports
- Submission to MDE, not Treasury
- Certification requirement – see NL 2023-1 for guidance
- Reflects sinking fund changes from PA 26 of 2023 (i.e. allows for buses, other vehicles)
- Treasury Bulletin 7 is no more 😞



Questions?

References:

[Numbered Letter 2023-1](#)

<https://www.michigan.gov/treasury/local/lafd/letters>

MSBO library of old Treasury pre-approval/opinion letters:

[MSBO Sinking Fund Library](#)

Follow up questions to Treasury:

Treas_MunicipalFinance@michigan.gov

THANK YOU!

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