

**Iowa State Auditor's Office: Student Construction Program FAQs
Prepared in consultation with the Iowa Department of Education
July 2008**

Due to the number of questions regarding student construction program issues, our Office consulted with the Iowa Department of Education to address the following issues. We are not attorneys and this guidance should not be considered to be legal advice.

Question 1: What fund should Districts use to account for a student construction program?

Answer 1: A student construction program is best accounted for in an Enterprise Fund – fund 64 per DE chart of accounts. Preferably, Districts using General Fund money (as discussed below) for allowable start-up costs of the educational program or to subsidize the program should transfer from the General Fund to the Enterprise Fund, as needed to pay specific invoices.

To maintain proper accountability and control, and to avoid misstatement of the General Fund unspent balance, Districts should not transfer a lump-sum from the General Fund to the Enterprise Fund.

Question 2: How can Districts finance the materials and supplies needed for construction?

Answer 2: Districts can borrow from any fund with funds available to loan, including the General, PPEL or SILO funds. Loans, including terms (interest, if any, and repayment timeline) should be approved by the Board of Education and documented in the Board minutes.

Question 3: Do Districts have to repay the loan by June 30 (year-end) or can the District's record an interfund receivable/payable at year-end?

Answer 3: The Department of Education issued a revised Declaratory Order, (Order), dated June 16, 2008 and further revised October 2009 available on the Department of Education's web site at:

<http://www.iowa.gov/educate/images/stories/appeals/book25decision183.pdf>

According to the Order, there are four requirements which Districts must comply with to issue loans between funds. Requirement number 4 (on page 3 of the Order) requires the loan to be repaid before October 1st of the fiscal year following the fiscal year within which the loan occurred.

So, if a District executes a loan agreement, as described in the Order and is unable to repay the loan by the following October 1st or organizational meeting of the Board, whichever is last, the District would need to proceed under Chapter 74 of the Code of Iowa to issue anticipatory warrants or proceed with one of the other remedies described in the Order.

Loans outstanding at fiscal year-end would be recorded on the balance sheet as an interfund loan receivable or an interfund loan payable. Interfund operating transfers would not be used for this transaction.

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Question 4: Can Districts expend PPEL and/or SILO dollars for student construction, rather than "loan" these funds to the Enterprise Fund, Student Construction account?

Answer 4: No. PPEL and/or SILO dollars must be used for school buildings. Since the student construction (building; shed, improvement etc.) is typically sold rather than retained and used by the District, the student construction would not meet the statutory criteria to be classified as a "school building."

If students constructed a building or shed for the school district, retained by and used by the school district, PPEL and/or SILO dollars could be expended by the District for this purpose.

Question 5: What costs, if any, can be paid from the General Fund?

Answer 5: Districts may pay the instructor's salary and benefits from the General Fund as well as other ancillary costs including insurance; materials and supplies; freight or transportation costs and purchase of land.

Instructor salary and benefits should be paid directly from the General Fund unless the instructor's contract clearly identifies a specific dollar amount (or percentage) attributable to the student construction program.

Other costs associated with the student construction program may be reimbursed to the Enterprise Fund or paid directly from the General Fund, if incidental. Since financing arrangements for student construction programs can vary among Districts, individual Districts should determine whether they wish to measure the profitability of the student construction program by using an Enterprise Fund for all costs.

Question 6: Are there any statutory requirements pertaining to the disposition of student-constructed buildings?

Answer 6: Chapter 297.22(3) of the Code of Iowa, states:

"The provisions in subsections 1 and 2 relating to the sale, lease, or disposition of school district property do not apply to student-constructed buildings and the property on which student-constructed buildings are located. The board of directors of a school district may sell, lease, or dispose of a student-constructed building and the property on which the student-constructed building is located, and may purchase sites for the erection of additional structures, by any procedure which is adopted by the board."

The Board's approval of the procedures should be documented and included in the published Board minutes. If Districts do not already have a policy relating to the disposition of student constructed buildings/property, the Board of Directors should address this through Board policy.

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Question 7: Does 297.22(3) allow outright purchase of sites (not loans) from General; PPEL and/or SILO?

Answer 7: Yes, from the General Fund since this would be part of the District's educational program. Otherwise, this would not be an appropriate General Fund expenditure. The funds would be transferred from the General Fund to the Enterprise Fund for the purchase. As previously noted, PPEL and/or SILO dollars may not be expended for student construction. However, PPEL and SILO would be appropriate funds for purchases of land and construction other than student construction.

Question 8: What is the best way to "sell" student-constructed buildings?

Answer 8: Typically, students complete the construction and the District advertises and offers the building on a competitive bid basis, publicly invited and opened.

Districts could also build to specifications of a predetermined buyer provided the District does not use public funds to "subsidize" the cost of the construction. In this case, the District should have a written agreement with the buyer and the buyer must cover all costs needed for the construction including costs, if any, to transport the materials and supplies to the building site. The written agreement with the buyer should include provisions to ensure the buyer remains responsible for increases in cost; change orders; etc.

Question 9: A School Foundation has requested a District to consider adopting/adding a program to construct student built houses with the house sale proceeds donated to the Foundation to provide funding for student scholarships. The Foundation has asked the District to provide the funds to purchase the lot, materials, supplies and any contracted services that may need to be purchased and pay the insurance coverage. The students would supply the labor, as part of a high school curriculum program for high school credit. The instructor's salary and benefits would be paid from the General Fund.

Answer 9: Article III, Section 31 of the Constitution of the State of Iowa requires public funds be spent for the public benefit. Districts can not divert public funds to a Foundation for scholarships or other purposes.

Since the District is funding the program, providing the insurance coverage and providing the financial support, the proceeds from the sale of the building are public funds and may not be given to a private, non-profit organization such as a Foundation.

Districts wishing to pursue this or involved in this type of arrangement should consult with District legal counsel.