



Auditor of State Bulletin

Date Issued: February 2, 2009

TO: School District Treasurers  
Independent Public Accountants

FROM: Mary Taylor, CPA  
Auditor of State

GASB 84 eliminated agency funds. Most often existing agency funds will become custodial fund, however, GASB 84 criteria should be evaluated for proper fund classification. Unlike agency funds, GASB 84 requires financial statements be presented to report custodial fund activity. See AOS Bulletin 2020-003

SUBJECT: Reporting Federal Student Loans – Adult Education

School districts and educational service centers (Schools) with adult education programs may receive federal financial assistance through the ~~Federal Family Education Loans (FFEL) Program (CFDA # 84.032) and~~ Federal Direct Student Loans (Direct Loan) Program (CFDA # 84.268). This bulletin explains how Schools receiving these federal loans should (1) report these loans on their Federal Awards Expenditures Schedules, (2) account for them, and (3) report them in GAAP financial statements.

Note: The federal government no longer offers FFEL loans. New loans are made under the direct program, 84.268.

Background Information

It is important to remember that the loan is between a lender and a student (or their parents), not between the lender and a School. The loan amount may include more than the tuition cost, which belongs to and is payable to the student. The School is often acting as a fiscal agent on behalf of the student for these loans.

The federal gov is the lender in the direct loan program.

The ~~FFEL and~~ Direct Loan programs make ~~interest-subsidized or unsubsidized Stafford loans to~~ students or PLUS loans to parents of dependent students to pay the cost of attending postsecondary educational institutions, including school districts and educational service centers. ~~Eligible lenders (banks, savings and loan institutions, etc.) make FFEL loans, which state or not-for-profit guaranty agencies insure.~~ The federal government reinsures loans guaranteed by the guaranty agencies. The Secretary of Education makes Direct Loans. The Schools must certify the borrower’s eligibility to receive the funds (i.e. loan proceeds) for both programs.

Guidance for Reporting in Federal Award Expenditure Schedules

OMB ~~Circular A-133~~ Compliance Supplement Part 5, ~~Section III(C)~~ states, “a disbursement of funds occurs on the date an institution credits a student’s account [i.e. recognizes tuition revenue as described later] or pays a student or parent directly with either Student Financial Assistance (SFA) funds or its own funds.”

The following table describes common federal student loan distribution methods:

Now included in the cash management guidance from the student financial assistance cluster.

<b>Loan Distribution Methods</b>
1. The lender deposits the money directly in the School's bank account via EFT and the School distributes the appropriate amounts to the adult education program as tuition and any additional amount to the student.
2. The lender sends a check to the School made payable to the borrower (student or parent) or copayable to the School and the borrower requiring the signature of both.

Regardless of the loan distribution method, the Federal Awards Expenditure Schedule (the Schedule) should report amounts received and disbursed as described in the *Guidance for Recording Loans in the Accounting Records and in External Financial Statements* below.

The U.S. Department of Education's website indicates ~~both Direct Loan and FFEL loans~~ will be paid through the School in at least two installments. The loan money must first be applied to pay for tuition and fees, and other allowable school charges. If additional loan money remains, the School pays the student by check or in cash, unless the student gives the School written authorization to hold the funds until later in the enrollment period.

Schools must report all Direct Loan program disbursements and submit required records to the Direct Loan Servicing System via the Common Origination and Disbursement (COD) within 30 days of disbursement. Each month, the COD provides Schools with a School Account Statement data file which consists of a Cash Summary, Cash Detail, and (optional at the request of the school) Loan Detail records. The School should periodically reconcile these records to its financial (i.e. fund) records. Independent Auditors can use the monthly reports and related reconciliations to help substantiate the receipts and disbursements of the Direct Loan program.

We assume the student loan monies under these programs are provided to the students/parents through the Schools. We assume that any loans students receive for which the School receives no notification are not federal loans issued under the FFEL or Direct Loan Programs and therefore Schools should not report them on their Schedules.

**Federal Uniform Guidance, §200.510**

Per ~~OMB Circular A-133, Subpart C, Section 300(a)~~, Schools are responsible for identifying and accounting for student loans issued under CFDA #84.032 and #84.268. The Schools must maintain sufficient documentation to enable them to report the amounts on their Schedules.

Monies Returned to Lenders or to the Federal Government:

There are instances (such as when a student withdraws) in which the School must return student loan monies to ~~the lender in the case of FFEL Loans or to~~ the federal government in the case of Direct Loans. In these cases, the Schools must return the unearned portion of the loans as described below. Schools should exclude receipts and disbursements related to material returns from its Schedule.

Additional info re: COD is available at:  
<https://ifap.ed.gov/eannouncements/attachments/0329FAQCODAttach.pdf>

## Guidance for Recording Loans in the Accounting Records and in External Financial Statements

### Recording the transactions in cash-basis accounting records

- Schools should record gross “loan proceeds” in its agency fund (USAS Fund 022) as follows:
  - Establish a special cost center in Fund 022
    - One cost center is sufficient, although the School must keep track of each student’s loan receipts, disbursements, and cash balance
  - Record Direct Loan proceeds as *restricted grants in aid received directly from federal government* (USAS Code 4210)
  - ~~Record the proceeds of FFEL loans received from lenders other than the federal government as *restricted grants in aid received from federal government through other intermediate sources* (USAS Code 4239)~~
  - Also record Direct ~~and FFEL~~ loan proceeds as *receipts* of the Direct or FFEL Federal programs on the Federal Awards Expenditure Schedule
  - Record all agency fund disbursements from this special cost center as described below
  
- When the School provides the educational service:
  - Record an agency fund *other miscellaneous use of funds* disbursement (USAS Function 7900, Object 942).
    - Also record these agency fund payments as disbursements from the Direct ~~or FFEL~~ programs on the Federal Awards Expenditure Schedule.
  - Record the same amounts as *tuition* (USAS Code 1239) in the Adult Education Fund (USAS Fund 012).
  
- If the “loan proceeds” exceed the amount of the tuition and allowable fees, Schools should disburse the excess amounts remaining in the agency fund to the borrower (student or parents) and record the disbursement as *other miscellaneous use of funds* (USAS Function 7900, Object 942).
  - Also record these agency fund payments as disbursements from the Direct ~~or FFEL~~ programs on the Federal Awards Expenditure Schedule.
  
- If the School must return monies to ~~lenders in the case of FFEL Loans or to~~ the federal government in the case of Direct Loans:
  - For loan proceeds remaining in the agency fund:
    - If returned in the same fiscal year in which recorded as a receipt, record the amount returned to the lender as a reduction in receipts (i.e. reduce receipts recorded to USAS Codes 4210 or 4239 as applicable).
      - Note this entry would also properly reduce the amount reported as receipts in a School’s Federal Awards Expenditure Schedule.

- If returned in a fiscal year subsequent to the year in which recorded as a receipt, record the amount returned to the lender as a *refund of prior year receipts* (USAS Function 7500, Object 930)
- If the loan proceeds have been paid to the Adult Education Fund and recorded as *tuition* receipts:
  - If returned in the same fiscal year in which recorded as a receipt, record the amount returned to the lender as a reduction in *tuition* receipts
  - If returned in a fiscal year subsequent to the fiscal year in which recorded as a receipt, record the amount returned to the lender as a *refund of prior year receipts* (USAS Function 7500, Object 930)

### Reporting these transactions in GAAP financial statements

Agency funds report only their assets and liabilities in basic GAAP statements. For these loans, the only agency fund asset is loan proceeds (i.e. cash) the School is holding, with an offsetting liability to the student. If the School prepares a *combining statement of changes in assets and liabilities* for its agency funds (as is required in comprehensive annual financial reports), the agency fund should report *additions* and *reductions* when it receives and disburses cash.

Full accrual statements should record *tuition* revenue (an exchange transaction) when the School provides educational services.

Schools should reclassify any cash recognized as *tuition* in the Adult Education Fund prior to providing educational services as *deferred revenue*.

Deferred inflow or unearned revenue. See GASBS 63 & 65.

If a School classifies its adult education fund as a governmental fund, it should follow the modified accrual-basis. The accounting is the same as described in the preceding two paragraphs, except the School should defer (as a liability, rather than recognize revenue) any tuition earned but received after the *available* period.

### Other Single Audit Considerations:

~~Both the FFEL and~~ the Direct Loan programs are part of the Student Financial Aid Cluster as designated by the Office of Management and Budget. As mentioned above, Schools are responsible for determining and reporting the amounts of the awards on their Federal Awards Expenditures Schedules. Auditors are responsible for testing the completeness and accuracy of amounts reported on the Schedule. Auditors are also responsible for including the expenditures of these loan programs in their major program determinations in accordance with OMB Circular A-133. If auditors determine the Student Financial Assistance Cluster is a major program, they should audit the program's compliance. AOS staff must use the Student Financial Assistance (SFA Cluster) Federal Award Compliance Control Record (FACCR) available on the Auditor of State website as their audit program for these loans. IPA's may use the FACCR or comparable documentation.

You can find the FACCR at:

~~<http://www.auditor.state.oh.us/LGS/Publications/AuditorsForms/AuditForms/faccrs.htm>~~

**Questions:**

If you have any questions about this Bulletin, please contact the Accounting & Audit Support Division of the Auditor of State at (800) 282-0370.

**Updated FACCR link:** <http://www.ohioauditor.gov/references/practiceaids/faccrs.html>

Mary Taylor, CPA  
Auditor of State