

## PUBLIC SCHOOL BUILDING CAPITAL FUND

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**State Authorization:** The authorization for the Public School Building Capital Fund is North Carolina General Statutes Chapter 115C-546.1.

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### N.C. Department of Public Instruction

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**Agency Contacts:**

**Program**

Dennis R. Hilton, School Planning Consultant  
School Planning Section  
[Dennis.Hilton@dpi.nc.gov](mailto:Dennis.Hilton@dpi.nc.gov) (984) 236-2922

Nathan Maune, Section Chief  
School Planning Section  
[nathan.maune@dpi.nc.gov](mailto:nathan.maune@dpi.nc.gov) (984) 236-2919

**Financial**

Shirley McFadden, Monitoring and Compliance Manager  
Monitoring and Compliance Section  
[Shirley.McFadden@dpi.nc.gov](mailto:Shirley.McFadden@dpi.nc.gov) (984) 236-2258

**N.C. DPI Confirmation Reports:**

Final Lottery fund distributions for 2020-21 can be found at:

<https://www.dpi.nc.gov/media/12942/download?attachment>

Monthly records of revenue and interest earned, and projects approved for funding in the current fiscal year can be found at:

<https://www.dpi.nc.gov/documents/Schoolplanning/monthly-county-report/download>

See also Section 1, below.

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The auditor should not consider the Supplement to be “safe harbor” for identifying audit procedures to apply in a particular engagement, but the auditor should be prepared to justify departures from the suggested procedures. The auditor can consider the supplement a “safe harbor” for identification of compliance requirements to be tested if the auditor performs reasonable procedures to ensure that the requirements in the Supplement are current.

The grantor agency may elect to review audit working papers to determine that audit tests are adequate.

Auditors may request documentation of monitoring visits by State Agencies.

### I. PROGRAM OBJECTIVES

The Public School Building Capital Fund (PSBCF) was established by the 1987 Session of the North Carolina General Assembly to assist county governments in meeting their public school building capital needs as well as their equipment needs under their local school technology plans. Funds were originally generated from a portion of the NC Corporate Income Tax. PSBCF allocations were made from corporate tax funds from 1987 until 2009, when the use of that funding source was curtailed. In October 2006, the PSBCF began to receive deposits from the NC Education Lottery. PSBCF revenue is currently distributed to each county based upon its Average Daily Membership (ADM). Additional definitions and guidelines can be found in the “Procedures Manual: Public School Building Capital Fund,” which is posted on the website of the School Planning Section of the North Carolina Department of Public Instruction at <https://www.dpi.nc.gov/media/6777/download?attachment>. Various monthly, quarterly, and annual reports can be found at the DPI School Planning website at <https://www.dpi.nc.gov/districts-schools/district-operations/school-planning/capital-funding> by

accessing the Public School Building Capital Fund. Posted reports include estimated lottery fund distributions for the current fiscal year, actual lottery fund distributions for past fiscal years, and an annual report of all PSBCF activity. Also included are Applications for the ADM (Corporate Tax) Fund and the Lottery Fund.

## **II. PROGRAM PROCEDURES**

### **Administration**

The Department of Public Instruction administers the Public School Building Capital Fund. A joint application for funding, signed by the Chair of the County Commissioners and by the Chair of the local Board of Education, must be submitted to DPI. County allocations are made upon DPI approval of funding applications.

### **Fund Allocations**

Corporate income tax collections deposited into the PSBCF were allocated to the counties on the basis of average daily membership (ADM) as certified by the State Board of Education. No corporate income tax revenues were deposited into the PSBCF in the FY 2002-03 per a special provision passed by the General Assembly (SB 1115, Section 7.16). No tax revenue deposits were made in the last half of FY 2008-09, and no tax revenue deposits have been made into the PSBCF from FY 2009-10 to date. However, unspent corporate tax revenue in what is colloquially known as the "ADM Fund" remains a part of the PSBCF.

Allocation of Lottery funds was originally made as follows: 65% divided among Local Education Administrations (LEA) based upon ADM, and 35% divided among LEA's whose local property tax effort exceeded the state average, also according to ADM. A change to this percentage formula was made after a Legislative study of multiple school funding formulas, and allocation of Lottery funds is now based solely on ADM (regardless of property tax effort).

A PSBCF allocation account for each LEA is established and maintained by the Department of Public Instruction. This account includes both ADM (Corporate Tax) funds and Lottery funds. A disbursing account for each county is established and maintained by the State Treasurer's Office. The Department of Public Instruction transfers funds from a county's PSBCF account to the county's disbursing account in the State Treasurer's Office at the end of the month that it approves funding for a capital building project.

Funds from the NC Education Lottery are not allowed to be used for Technology purchases. Instead, funds for school technology can be transferred from the ADM (Corporate Tax) Fund to the State School Technology Trust Fund and allocated to LEA's by the Department of Public Instruction.

Interest earned on the balance of funds in each LEA's PSBCF account and the county's disbursing account is allocated to the LEA's and added to the balance in their respective PSBCF accounts.

After funds have been transferred to a county disbursing account, the county finance officer writes warrants (checks) against the account to a terminal payee to pay expenses for the capital project. Additional duties of the county finance officer are described below in Section III. Compliance Requirements.

### **Application Process**

A completed application form (ADM Fund or Lottery Fund), signed by the Chair of the County Commissioners and Chair of the Board of Education, is submitted to the Department of Public

Instruction. Funds are provided on a project basis for capital outlay on public school buildings, including the purchase of land, planning, construction, renovation, enlargement, and repair. (Purchase and/or installation of mobile or modular classrooms are not funded by PSBCF.) Funds sourced from corporate income tax are also provided for equipment to implement an approved local school technology plan. If a county does not need allocated funds for public school capital outlay projects or local school technology, funds may be used to retire debt incurred by the county for items allowable the same as a new project. For lottery-sourced funds, the construction must have been completed after January 1, 2003. For corporate tax-sourced funds, the construction must have been completed after July 1, 1987. The application is processed at the end of the month, and if approved, funds are transferred to the county's disbursing account at the beginning of the following month.

### **Matching**

For corporate tax-sourced projects, a local match on the basis of one dollar of local funds for every three dollars of state funds must be identified and designated, except for school technology projects. The ratio of at least one dollar of local expenditures for every three dollars of state expenditures must be reached by the conclusion of the project. No local match is required for projects approved for school technology with the monies being transferred to the School Technology Trust Fund. No match is required for lottery-sourced funds.

Allowable sources of local funds include the respective ½ percent sales taxes of 1983 and 1986 and other local option taxes, local bond proceeds, donations, and general county revenues. Local expenditures qualify as allowable match only when expended on the same categories as those allowable for state funds on the same project.

### **Reporting**

A Final Report, specifying the local and state amounts expended for the project using the categories of expenditures on the application form, is due within 60 days of the completion of the project. A Final Report form is available on the School Planning website at: <https://www.dpi.nc.gov/media/6775/download>, but use of the form is not mandatory. When a Final Report has been received, and accepted, the "Monthly Projects Report" on the School Planning Website will be annotated to show a "Y" in the Rpt. Rcvd. column. Report link is as follows: <https://www.dpi.nc.gov/media/6769/download?attachment>

### III. COMPLIANCE REQUIREMENTS

Noted below in the following matrix are the types of compliance requirements that are applicable to the federal program. These Types are determined by the State agency noted by "Y."

If the Matrix indicates "Y," the auditor must determine if a particular type of compliance requirement has a direct and material effect on the State program for the auditee.

CC	1	2	3	4	5	6	7	8	9	10	12	13	14
Cross-cutting requirements	Activities Allowed or Unallowed	Allowable Costs/Cost Principles	Cash Management	Conflict of Interest	Eligibility	Equipment/ Real Property Management	Matching, Level of Effort, Earmarking	Period of Performance	Procurement Suspension & Debarment	Program Income	Reporting	Subrecipient Monitoring	Special Tests and Provisions
N	Y	N	Y	N	N	N	Y	N	N	N	Y	Y	N

#### 1. Activities Allowed or Not Allowed

##### Compliance Requirement

State funds (i.e. funds administered through the PSBCF) can be expended only for projects/activities approved by the Department of Public Instruction. Funding applications are not accepted for projects more than one year following the date of final payment to the contractor or vendor.

The definition of public school buildings for which state funds can be expended includes only facilities for individual schools that are used for instructional and related purposes and does not include centralized administration facilities, maintenance facilities, or other such buildings. Additionally, mobile and modular classrooms are not included.

Projects, activities and other items for which state funds **can** be expended include the following:

- a. Purchase of land for public school buildings.
- b. Planning/Design fees (Architectural, Engineering, etc.) for public school building projects, as well as fees for site surveying, subsurface investigation (soil borings), inspections for hazardous materials such as asbestos and lead based paint, or other fees directly related to a public school building capital project.
- c. New construction of public school buildings.
- d. Renovation of existing public school buildings.
- e. Expansion of / additions to (i.e. enlargement of) public school buildings.
- f. Repair of existing public school buildings (mechanical system upgrades, roof replacement, exterior upgrades, etc.).

- g. School technology (see below for additional information regarding funding for technology).
- h. Equipment that is an integral part of a building (HVAC, plumbing and electrical equipment, wiring), and would be included in the appropriate funding category (i.e. construction, renovation, repair, enlargement).

State funds **cannot** be expended for moveable equipment or equipment that is not an integral part of a building, such as furniture/furnishings (desks, chairs, drapery), telephones and computers. An exception to this, however, is that computers and other school technology can be funded by the ADM (Corporate Tax) Fund through the School Technology Trust Fund if the items are included in the LEA's school technology plan that is approved pursuant to G.S. 115C-102.6C. Lottery funds **cannot** be used for technology listed on the LEA's technology plan.

Warrants against the disbursing account in the State Treasurer's Office for expenditures on approved projects must be payable to a terminal payee.

The State Treasurer's Office publishes on its website, <https://www.nctreasurer.com>, a monthly statement showing disbursing account activity and the month's cleared warrants to be reconciled. The county finance officer is responsible for reconciling the monthly statement within 15 calendar days of the date it is published by completing the electronic Statement Verification process on the Core Banking System (CB\$) website.

#### Suggested Audit Procedures

- Determine that state funds were expended only on allowable structures and allowable types of equipment on an approved project.
- Determine that state funds were expended only on invoices paid after July 1, 1987 on an approved project.
- Determine that retirement of debt payments was only on approved retirement of debt projects with dates of completion of construction as noted above.
- Determine that the payee on warrants was the terminal payee.
- Determine that the statements from the State Treasurer's Office were reconciled within 15 calendar days.
- For school technology projects, determine that state funds were expended only on equipment identified in the local school technology plan that is approved pursuant to G.S. 115C-102.6C.
- When allowability is determined based upon summary level data, perform procedures to verify that activities were allowable and individual transactions were properly classified and accumulated into the activity total.
- When allowability is determined based upon individual transactions, select a sample of transactions and perform procedures to verify that the transaction was for an allowable activity.

### 3. Cash Management

#### Compliance Requirement

All local governments and public authorities are required to follow cash procedures for State funds outlined in the State's Budget and Fiscal Control Act (G.S. 159) and rules, policies, and procedures established by the Local Government Commission.

Warrants against the disbursing account in the State Treasurer's Office for expenditures on approved projects must be payable to a terminal payee. Payment must be to vendors for goods and services allowable, to the local education authority for reimbursement of allowable expenditures, or to the county for reimbursement of allowable expenditures. Once the county finance officer writes warrants against the disbursing account, the state funds may not earn interest prior to final payments.

#### Suggested Audit Procedures

- Review records to determine that the payee on warrants was the terminal payee.
- Verify that bank reconciliations are performed monthly and that monthly balances are reconciled to the G/L.

### 7. Matching, Level of Effort, Earmarking

#### Compliance Requirement

Funding for projects through the ADM (Corporate Tax) Fund is to be matched on a project-by-project basis as approved by DPI School Planning. Overmatch on one project cannot be used as match on another project since local and state expenditures must be on the same project. The required minimum matching ratio is one dollar of local funds expended for every three dollars of state funds expended, except for school technology projects.

**No local match** is required for projects approved for school technology with Public School Building Capital Fund monies transferred to the School Technology Trust Fund.

**No local match** is required for construction funds from the Education Lottery.

The ratios of state/local funds do not need to be maintained with each payment of invoices during the project, but the ratio of at least one dollar local expenditure for every three dollars of state expenditure must be reached by the conclusion of the project.

The respective 1/2 percent sales taxes of 1983 and 1986, bond proceeds, donations, and general county revenues are allowable as match.

Funds from the Critical School Facility Needs Fund and the Public School Building Bond Act of 1996 **are not** allowable matches.

Local matching expenditures or donations received between July 1, 1986, and July 1, 1987, on allowable items on an approved project qualify as match for that project, which cannot have been completed prior to July 1, 1987.

Funds expended or donations received prior to July 1, 1986, **are not** allowable match.

Local match expenditures and donations qualify as allowable match only when expended on the same construction and equipment categories as those allowable for state funds on the approved project.

Local match expenditures and/or donations **cannot** be used for moveable equipment, such as student desks, mini/micro-computers, nor on centralized administration, maintenance, mobile or modular classrooms, or other facilities.

#### Suggested Audit Procedures

- For “ADM” projects, determine that the match was expended on allowable usages on the approved project.
  - Determine that at the conclusion of the project, there was at least one dollar of local match expended for every three dollars of ADM state funds expended on the approved project.
  - Determine that the match and state funds were expended on the same project.
  - Determine that the match was not expended prior to July 1, 1986.
  - Determine that if the match was expended between July 1, 1986 and July 1, 1987, that the project was not completed prior to July 1, 1987.
  - It is preferred that the auditor verify the projects awarded by using the June 30th Statement of the Public School Building Capital Fund provided to each county and school system annually. As of 2003, the Office of State Budget and Management does not administer the PSBCF; address inquiries to the School Planning Section of DPI, not OSBM.

## 12. Reporting

### Compliance Requirement

The recipients are required to submit a brief final report using the categories of expenditures listed in the application within 60 days of completion of the project.

### Suggested Audit Procedures

- Determine that a final report was submitted on a completed project within 60 days of completion of the project. Responsibility for submitting the final report is undertaken jointly by the county and the LEA, unless there is a local agreement in force to designate responsibility. However, per paragraph 13 below, the county has overall accountability to monitor the process and ensure that all activities are completed as required.
- Trace the state and local amounts reported to accounting records that support the audited financial statements and verify agreement or perform alternative procedures to verify the accuracy and completeness of the reports and that they agree with the accounting records.

## 13. Subrecipient Monitoring

### Compliance Requirement

The county is considered the grantee and the LEAs are subrecipients. Counties are responsible for reporting these funds as a grant in their audit report and are responsible for monitoring these funds.

### Suggested Audit Procedure

Determine that the counties have records to document their monitoring the grant funds received by the LEAs for each project.