


MSBO | September 22, 2011

Fund Accounting for Michigan School Districts in 2011

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Objectives

- Basics – Accounting Methods and Rules
- Specifics of Funds
- Government Wide Statements (GASB 34)
- Single Audit
- Budget Process


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Fund Accounting – Where did it come from?

- Bank accounts for specific purposes
- Accounting funds


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Accounting Methods

- Cash
- Accrual
- Modified Accrual

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Accounting Methods

<u>Method</u>	<u>Revenues are Recognized</u>	<u>Expenses are Recognized</u>
Cash	When they are received	When they are paid
Accrual	When they become receivable/earned	When they become payable (when work is performed or goods are received, amounts are due)
Modified Accrual	Hybrid between cash and accrual – with special rules	

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Regulatory Influence

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Governmental Accounting Standards Board (GASB)

- **GASB Pronouncements**
- **GASB and the State Accounting Manual**
- **MDE accounting structure and FID**
 - ✓ See earlier presentation
- **The Reporting Model – later in this session!**

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Examples of Recent Pronouncements

GASB 42 – *Impairment of Capital Assets*

- Discusses required reporting of effects of capital asset impairments

GASB 54 – *Fund Balance Reporting and Governmental Fund Type Definitions*

- Provides for improved reporting of fund balance by establishing a hierarchy of fund balance classifications. Clarifies Special Revenue Fund definition.


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Michigan Department of Education's Bulletin 1022 Accounting Manual & FID

- **Purpose**
- **Attempts to conform with GAAP**
- **Accounts**
 1. Fund
 2. Function
 3. Object
- **Revised May 2002, plus periodic additions**
- **Q&A Guide issued in 2001 for GASB 34**
- **FID**

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Account Structure – The FID

- Full Account Structure includes 26 digits:

Fund	Trans.	Major Class/ Function	Suffix/ Object	Program	State	Facility/ School	Other
XX	X	XXX	XXXX	XXX	XXXX	XXXXX	XXXX
B R E	B R E	B R E	R E	E	E	E	E

B = Balance Sheet R = Revenue E = Expenditure

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Who to Call???


Glenda Rader – MDE
517-335-0524

DIT Client Service Center – CEPI

HelpDesk@Michigan.gov

Or
517-335-0505

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Report Filing

- Financial Statements, Single Audit Package, Management Letter and Data Collection Form to ISD by October 28 / MDE by November 15
- Financial Statements and Audit Results Letter (SAS 114) to Treasury within 120 days of year end
 - ✓ Covered by filing on MDE site
- Financial Statements, Single Audit, Corrective Action Plan, Schedule of Prior Audit Findings, and Data Collection to Clearinghouse
- Bond Financial Report to Treasury
- PDF submissions required

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Auditing Standards

- **Statement of Auditing Standards (SAS)**
- **SAS 104 to 111 – Redefines the Audit**
- **SAS 114 to 115 – New letter to the Board**
- **Implications**
 - Greater focus on internal controls
 - Great likelihood of findings
 - Greater business office preparation
 - More time with your Auditor (lucky you!) 

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Auditor Independence


- **GAO Standards impacting non audit services**
 - ✓ New GAO standards just issued, effective 2013 year end
- **Non audit services are okay if Auditors are not making management decisions or auditing their own work**
- **Some “non audit work” will now be done as a performance audit or as an “attestation”**
- **Generally auditors cannot do bookkeeping!!**
- **Auditors can propose adjustments and assist in drafting financial statements**
 - ✓ Management must take “ownership”
- **Are you in compliance???**


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What Do Schools Do?

- 






- Can you list?
 - Remember, what you list you must account for!

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Funds - Overview

- **General**
 - ✓ Districts operating fund
- **Special Revenue**
 - Food Service
 - Athletics (included in General Fund starting 2010/2011)
 - Vocational
 - Special Education
 - Other Public Purpose (Expendable Trust Funds)...benefit Gov't
- **Capital Projects**
- **Debt**
- **Permanent (Nonexpendable) Trust (GASB 34)**
- **Agency (and Trust...benefit is outside Gov't)**

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General Fund

- **Revenue**
 - Local Sources
 - Property taxes
 - Tuition
 - Interest
 - Other
 - Other political subdivision sources
 - Other government sources
 - State sources
 - Unrestricted
 - Foundation Allowance


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General Fund


- **Revenue (continued)**
 - Restricted
 - Special education
 - At Risk
 - Durant (non-plaintiffs)
 - Federal sources
 - Through the State
 - Direct
 - Transfers and other
 - Proceeds from Debt
 - Inter-fund Transfer

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 **General Fund**


- **Expenditures**
 - Instruction
 - Basic programs
 - Elementary grades
 - Teacher's salaries
 - Teacher's fringe benefits
 - Teaching supplies
 - Purchased services
 - Purchase of classroom equipment
 - Middle/Junior high school
 - High school

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 **General Fund**

- **Expenditures (continued)**
 - Instruction
 - Added needs
 - Special Education
 - Vocational education
 - Adult education

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 **General Fund**

- **Expenditures (continued)**
 - Supporting services
 - Pupil
 - Instructional staff
 - General administration
 - School administration
 - Business
 - Operations and maintenance
 - Transportation
 - Central

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General Fund

▪ **Expenditures (continued)**

- Community services
- Transfers and other

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Special Revenue Funds

Special Revenue Funds are used to account for activities where there is a need to determine the results of operations. Per GASB 54, Special Revenue Funds must derive a substantial portion of revenue from restricted or committed sources.

- Food Service
- Book Store
- Athletics (in General Fund beginning 2010/2011)
- Community Education
- Latchkey
- Special Education Center Program
- Public Purpose (Expendable) Trusts...that benefit district

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Food Service

- **Who manages program?**
- **Sales Tax – Adult vs. Student**
- **Collection of Money**
- **Key Controls**
- **Activity “restricted” due to federal funds**

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Bookstore

- Management
- Sales Tax
- Collection of Money
- Key Controls
- Activity can be part of General Fund, segregation generally a commitment

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Athletics

- General Fund support
- Pay to Participate
- Ticket Sales
- Employee vs. Independent Contractor
- Volunteer vs. Employee
- Booster Clubs
- Key Controls
- Important information, but part of GF
 - ✓ keeping track/reporting on information?

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Debt Funds

- Revenue
 - Property taxes
 - Interest on delinquent taxes
 - Earnings from investments
 - Sale of surplus properties
 - Borrowing from School Bond Loan Fund
 - State aid – Durant bond payment



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Debt Funds

▪ Expenditures

- Redemption of bonds
- Interest on outstanding bonds
- Paying agent fees
- Repayments to School Bond Loan Fund



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Capital Projects Funds

▪ Revenue

- Proceeds from sale of bonds
- Property taxes – special millage (sinking funds)
- Federal or State funds for approved projects
- Sale of surplus properties
- Earnings on investments
- Transfers from General Fund (limited by law)

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Capital Projects Funds

▪ Expenditures

- Bond issue
 - Site acquisition and preparation
 - Build new buildings and major additions
 - Renovate existing building
 - Furnish new or completely renovate buildings
 - School buses
 - Technology, with certain limitations
 - Not maintenance

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Capital Projects Funds

▪ Expenditures (continued)

- Sinking Fund
 - Site acquisition
 - New buildings
 - Repair of existing buildings
 - Technology, with certain limitations
- Arbitrage
- Transfers out
- Bond & Sinking Fund Audit Guide update 8/04

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Trust & Agency Funds

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Trust Funds

Used for assets under the administrative control of the school district functioning in a trustee capacity

- Public Purpose “Expendable Trust”...district benefit
- Permanent “Non-expendable Trust”...district benefit
- Either “type”...benefit outside district...private purpose

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“Expendable Trust”

- Created by Board of Education or a Donor
- Carry Out Objectives of Agreement
- Principal can be spent
- Could be Special Revenue or Private Purpose Trust

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“Non-Expendable Trust” Scholarships/Memorials

- Principal remains intact
- Income restricted by agreement
- Created by donor
- Perpetual or limited life
- Permanent Fund...district benefit
- Private Purpose Trust...outside benefit

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Perpetual Trust

- Continued as long as principal remains intact
- Long as school system operates
- Agreement tells how to dispose
- Audit trail when transferred
- Permanent Fund...district benefit
- Private Purpose Trust...outside benefit

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Agency Funds

Custodial in nature. Used to report assets received & disbursed for student groups and other school groups. The district acts as the receiving and paying agent for these groups.

- Year Book
- Student Council
- Generally excludes PTO's, Boosters

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Agency Funds - Procedures

- Written
- Central vs. Building Control
- Accounting Procedures
- Check requests
- Charges to Fund
- Audit
- Business Office Monitoring
- Not "material" but...

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Inter Fund Transfers

Payment of one fund to another fund.

- Debt to General
- Trust to General
- Capital Projects to General, **BE CAREFUL!**
- Food Service to General, **BE CAREFUL!**
- General Fund to Debt or Capital...limited by law to 20% of state aid
- Do they "balance"?

– Check this during the year, can create heartburn


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Inter Fund Transfers

- One checking account
- Automated systems
- Transactions transparent
- Sweep accounts
- Transfers In **MUST EQUAL** Transfers Out


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Fund Balance

- Surplus vs. Deficit
- Legal requirements
- Non-spendable – prepaid, inventory
- Restricted – legally required: debt, bonded/sinking fund projects, food service
- Committed – Board determined
- Assigned – Board determined, can be delegated
- Unassigned – What's left
- How much is enough?

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Fund Balance as a Percentage of Expenditures

One method of estimating an appropriate fund balance is to compare it to total expenditures.

Assume that total expenditures are \$20,000,000


	Weeks	Days
Fund balance equal to 5% of expenditures = \$1,000,000	3	18
Fund balance equal to 10% of expenditures = \$2,000,000	5	37
State average 2009/2010 (excluding Detroit) had fund balance equal to 10.4% of expenditures = \$2,080,000	5	38

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The Reporting Model

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GASB 34 and Michigan Schools

Key Elements

- MD&A
- Fund level reporting
- Government-wide reporting
- Original, amended budget & actual format
- Capitalization and depreciation of assets
- Records maintenance plan

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Government-wide Statements ONLY!

- **The district should maintain the two additional sets of records...**
 - Long term debt
 - Fixed (capital) assets
- **Information needed for FID as well**

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Long Term Debt

Liabilities not recognized in the governmental funds, typically...

- Un-matured principal of bonds
- Compensated absences
- Early retirement incentives
- Retirement benefits
- Leases
- Self insurance

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Fixed Assets

Do not represent financial resources available for expenditure, but are items for which financial resources have been used.

- Purchased from General or Capital Projects Funds
- Land, Buildings, Equipment
- Historical costs only
- Need to depreciate
- Valuation methods
- Management software

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Fund Level Reporting

▪ Significant Issues

- Concept of major and non-major funds
- Reconciliation to the government-wide statements
- Budget comparison includes the original budget as well as the final amended budget and reports it in additional information (RSI)
 - What if athletics was not budgeted within the General Fund?

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Fund Level Reporting

▪ Significant Issues (continued)

- Are governmental fund liabilities valued under "interpretation #6"...biggest impact on compensated absences and self insurance?
- Are deferred revenues booked when funds are not received within 60 days?
- Some funds (ie: school lunch) might be treated as enterprise funds (not the case in MI)

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Government-wide Reporting

FOCUS ON NET ASSET ISSUES

▪ Net Assets Broken into 3 pieces

- Invested in capital assets net of related debt: Net fixed assets less outstanding debt, such as bonded debt, bus notes, capital leases
- Restricted net assets: Externally imposed restriction of Net Assets such as construction contracts and debt millage
- Unrestricted: Remainder

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OMB Circular A-133 and Grant Accounting

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Single Audit Issues

- Federal funds audit requirement (\$500,000)
- Grant accounting rules (cash mgt., allowability, eligibility, reporting)
- Grant accounting procedures (Written)
- Funds reimbursement request
- Final cost report
- Program Director / Business Office communication
- Data Collection Form – preparation and submission

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Budgeting & Financial Reporting

- Managing revenues & expenditures
- School System's plan for financial operations for a prescribed period of time
- One to five years for planning
- Should consider various funding levels (especially these days!)

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Budget Procedures: Four Phases

- Preparation of budget
- Presentation of budget
- Adoption of budget
- Execution of budget

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Who is involved?

- Board of Education
- Administration
- Staff

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**Budget Controls – PA 621
Required Budgets**

- General Fund
- Special Revenue Funds
- NOT Debt Funds

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**Budget Controls – Public Act
621**

1. The legislative body of each local unit, unless otherwise provided by law..., shall chart the chief administrative officer with final responsibility for:
 - A. Budget preparation
 - B. Budget preparation to the legislative body
 - C. Control of expenditures

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Budget Controls – PA 621

- 2. The chief administrative officer shall transmit the budget to the legislative body according to an appropriate time schedule developed by the local unit. The schedule shall allow adequate time for review by the legislative body before commencement of the budget year.
- 3. Before final passage of a General Appropriations Act by the legislative body, a public hearing shall be held on the budget as required by Act No. 43.

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Budget Controls – PA 621

- 4. Other data, relating to the fiscal condition, that the chief administrative officer considers to be useful in considering the financial needs of the local unit may be transmitted with the General Appropriations Act.
- 5. A deviation from the original General Appropriations Act shall not be made without amending the Act.

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Budget Controls – PA 621

- 6. A member of the legislative body or any employee of the local unit shall not create a debt or incur a financial obligation on behalf of the local unit, unless the obligation is permitted by law.
- 7. The legislative body in a General Appropriations Act may permit the chief administrative officer or fiscal officer to execute transfers with limits stated in the act...without prior approval of the legislative body.

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Budget Controls – PA 621

8. A violation of Public Act 621 in the absence of reasonable procedures in use to detect such violations shall be disclosed in an independent audit and be filed with the State treasurer and reported to the Attorney General.

9. The Attorney General may institute civil action for the recovery of funds illegally expended or collected as a result of malfeasance.

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Budget Controls – PA 621

10. A budget shall include at least the following:

- A. Revenue data for the most recently completed fiscal year and estimated revenues for the current year, as well as budgeted fiscal year.
- B. Expenditure data for the most recently completed fiscal year and estimated expenditures for the current year, as well as budgeted fiscal year.

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Budget Controls – PA 621

10. A budget shall include at least the following (continued):

- c. The amount of surplus or deficit that has accumulated from prior fiscal years together with an estimate of the amount of surplus or deficit expected in the current fiscal year. A member of the legislative body or any employee of the local unit shall not create a debt or incur a financial obligation on behalf of the local unit, unless the obligation is permitted by law.

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Budget Controls – PA 621

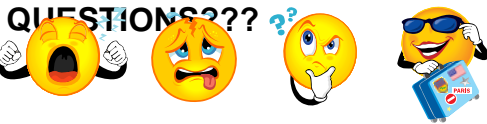
▪ Key budget implications

- ✓ Spending more than appropriated
- ✓ Taking in less than planned and reducing Fund Balance more than planned
- ✓ Deficit fund balance
- ✓ Adopted budget forecasting deficit fund balance
- ✓ Other funds in deficit creating an overall GF deficit

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Practical Issues – Questions???



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Thank You!

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