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Accounting and Auditing Update

Annual MSBO Conference, B11 – April 24, 2024



Today's Presenters



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Topics

- Bond and Sinking Fund Audits – Replacement of Bulletin 7
- GASB 101 – Compensated Absences
- GASB 100 – Accounting Changes and Error Corrections
- Exposure Draft– Financial Reporting Model
- Section 27K – Student Loan Repayments
- Grants Update
- New Audit Standards, SAS 143/145



Bond and Sinking Fund Audits

- Bulletin 7 and Numbered Letter 2004-4 completely replaced by MI Dept. of Treasury, Numbered Letter 2023-1
- Substantial completion close-out reporting replaced with annual transmittal letter to be sent to the MI Dept. of Treasury
- Change in determination of “completion” date of bond projects
- Guidance added on how to report when the firm auditing the expenditures for compliance, differs from the firm completing the financial statement audit.
- Impacts of auditing on annual basis vs. cumulative once bond is finalized



Bond and Sinking Fund Audits

Disclosures in the audited financial statements

(1) Include this each year the bond is open

The Capital Projects Fund includes capital project activities funded with bonds. For this capital project, the school district has complied with the applicable provisions of Section 1351a of the Revised School Code. The fund is not yet considered substantially complete and a subsequent year audit is expected (if applicable).

(2) Also include this disclosure in the year of bond close out

Beginning with the year of bond issuance, the school district has reported the annual construction activity in the Capital Projects Fund. The project for which the _____ (name, describe) Bonds, Series I (or more series if applicable), were issued was considered complete on June 30, 20xx (June 30 immediately following date of Certificate of Substantial Completion or 95% of proceeds expended) and the cumulative expenditures recognized for the construction period were \$_____.



Bond and Sinking Fund Audits

Audit bond expenditures each year or in the final year of the bond?

Audit each year

- Annual certification letter required to be submitted to Treasury by November 1 each year
- District, Board, and stakeholders have annual assurance that compliance requirement are being adhered to

Audit at the end

- May be burdensome for the district. Auditor will need to request bid and expenditure samples going back to the year the bond project started
- No assurance that district is compliant with state rules and bond ballot language, until the final year of the project
- Eliminates need to submit annual certification to Treasury, only required in final year
- Multi-series bonds – If auditing activity only at the end, no approval needed from Treasury to combine all series into one audit. This change has no relevance if auditing activity on an annual basis



Bond and Sinking Fund Audits

Sinking Funds

- Sinking Fund reporting in the financial statements – may need more than one fund in limited circumstances
- Which Levy is the district spending? Remember, the rules have changed over the years!

Sinking Funds	Prior to 3/29/2017	3/29/2017 to 5/7/2023	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 uses.*



Bond and Sinking Fund Audits

Sinking Funds

Required annual disclosure in the financial statements, each year that a sinking fund is audited.

Sinking Funds – The _____ (school district name) Capital Projects Fund records capital project activities funded with Sinking Fund millage. For this (these) fund(s), the school district has complied with the applicable provisions of Section 1212 of the Revised School Code.



GASB 101 – Compensated Absences

Overview

- Effective date
 - Fiscal years beginning after December 15, 2023
 - K12 = June 30, 2025 year end
- Replaces current standard, GASB 16 – Accounting for Compensated Absences
- No GASB implementation guide has been issued yet
- Full Accrual impact only – No changes to fund accounting



GASB 101 – Compensated Absences

Overview

- Why the change?
 - Rules based to conceptual framework-based approach
 - GASB 16 was specific as to the types of leave (ie sick) time that was covered. GASB 101 provides a framework that is intended to capture various leave types we see today and could see in the future
 - Increase comparability in reporting and disclosing compensated absences amongst governmental entities



GASB 101 – Compensated Absences

Definition

- A compensated absence is defined as leave for which employees may receive one or more:
 - a. cash payments when the leave is used for time off;
 - b. other cash payments, such as payment for unused leave upon termination of employment; or
 - c. noncash settlements, such as conversion to defined benefit postemployment benefits (likely rare for a K12)
- Examples
 - Vacation
 - PTO
 - Sick
 - Parental leave
 - Bereavement leave
 - Certain sabbatical leave
 - Etc. – Remember – the “name” of the leave is not important



GASB 101 – Compensated Absences

Exclusions

- Does not include termination benefits, like early retirement incentives, that are within the scope of Statement 47, Accounting for Termination Benefits
- Unlimited leave (FTO, although this is likely rare in K12)
- Holiday leave taken on specific dates
- Military Leave
- Jury Duty leave



GASB 101 – Compensated Absences

Differences from GASB 16

- Liability concepts:
 - GASB 16 – considers leave that will be paid out upon termination/retirement (vested portion) and an estimate leave amount for the nonvested portion based on *probability of retirement*.
 - GASB 101 – considers leave that will be paid out upon termination/retirement (vested portion) and an estimated leave amount for the nonvested portion based on *more likely than not use for time off or future retirement*.
- Threshold for liability recognition decreased from “probable” to “more likely than not”
 - Probable = likely
 - More likely than not = 50% likelihood or higher



GASB 101 – Compensated Absences

Leave that
hasn't been
used:



a) Attributable to
services already
performed

b) Accumulates

c) More likely than not to be
used for time off or
otherwise paid in cash or
settled

Controversial!

Also, recognize leave that has been used but
not yet paid in cash or settled



GASB 101 – Compensated Absences

Measurement

Use employee's pay rate as of the date of the financial statements (i.e. June 30, 20XX) UNLESS:

- Amount will be paid out at a different rate (i.e. at half their pay rate)
- If settled through noncash means, measured based on amount for which it is more likely than not to be settled
- Consider salary-related payments (like the employer share of Social Security or Medicare taxes)
 - Excludes MPSERS related contributions – already captured under GASB 68/75 accounting



GASB 101 – Compensated Absences

GASB Examples:

PTO

is earned each month, carries over without limits, and unused leave is paid upon termination.

- All accumulated PTO recognized as a liability

Sick leave

is earned each month, carries over without limits, but any unused leave isn't paid upon termination.

- Estimate how much leave is more likely than not to be used as paid leave and recognize as a liability



GASB 101 – Compensated Absences

Disclaimers

- Standard is effective for the year ended June 30, 2025 so we are still in the planning phase
- Future implementation guides may impact the some of the material being presented today.
- Industry guides and collaboration will likely shape the final implementation as well.
- Case studies for discussion purposes only.



GASB 101 – Compensated Absences

Sick Leave Example

Sick leave is paid out at 50% after five years of service:

- Employees over five years of service, unused sick leave = \$1,600,000
- Employees less than five years of service, unused sick leave = \$1,800,000

Sick leave is attributable to services already rendered and accumulates.



GASB 101 – Compensated Absences

Sick Leave Example (continued)

GASB 16	GASB 101
<p>The vested portion would be recorded at 50% (\$800,000). For employees less than five years of service, based on historical trends, it's probable that 25% of employees will stay on for more than five years and receive the termination payment at 50% ($\\$1,800,000 \times 25\% \times 50\% = \\$225,000$).</p>	<p><u>Vested portion:</u> Based on historical trends, assume 80% of the vested balance more likely than not would be eventually paid out at termination/retirement with the other 20% used prior to termination/retirement for sick leave. $\\$1,600,000 \times 80\% \times 50\% = \\$640,000$ $\\$1,600,000 \times 20\% = \\$320,000$</p> <p><u>Unvested portion:</u> For employees less than five years of service: Based on historical trends, assume 30% of the total balance is more likely than not to be paid out for employees staying on for more than five years to receive the termination payment, 40% of the total balance is more likely than not to be used for sick leave and the remaining 30% will be forfeited.</p> <p>Vested, paid out $\\$1.8m \times 30\% \times 50\% = \\$270,000$ Unvested, used for sick leave ($\\$1.8m \times 40\% = \\$720,000$).</p>
\$1,025,000	\$1,950,000



GASB 101 – Compensated Absences

Sick leave, with termination payment below current wage rate

- Sick leave termination payment at \$15/hour for unused sick hours for all employees that retire with the District
- Unused sick leave for employees that do not retire with the District is forfeited
- Sick leave balance for employees eligible for retirement: 5,000 hours
- Average pay rate for employees eligible for retirement: \$28/hour
- Expected future usage rate based on historical data: 80% of the hours for employees eligible for retirement will be used for time off versus paid out at retirement.
- Sick leave is attributable to services already rendered and accumulates.

Note: this example does not incorporate the sick leave for employees not yet eligible for retirement which should be considered when accruing the total compensated absences liability.



GASB 101 – Compensated Absences

Sick Leave Example (continued)

	GASB 16	GASB 101
Liability calculation	The termination payments due to eligible employees of retirement age would be recorded at \$75,000 (5,000 hours x \$15/hour)	<p>Sick leave for employees eligible for retirement must be bifurcated between expected future usage and amount to be settled through a termination payment.</p> <p>Amount to be used for future time off at current average pay rate for employees at retirement age = \$112,000 (5,000 x 80% x \$28 = \$112,000)</p> <p>Unused sick leave to be settled in the form of a termination payment at \$15/hour = \$15,000 (5,000 x 20% x \$15 = \$15,000)</p>
Liability amount	\$75,000 – per employee	\$127,000



GASB 101 – Compensated Absences

Disclosure Impacts

- Continue to report in the long-term liability disclosure including beginning balance, change in liability, and ending balance
 - BUT – no longer required to disclose the gross increases/decreases, net change is ok.
- No longer required to disclose which governmental funds will be used to liquidate the balances



GASB 101 – Compensated Absences

Key take aways -

- Full accrual impact only
- Generally expecting liabilities to increase
- Assessing the “more likely than not” portion
 - Start gathering data – work with payroll/HR team
 - This will largely be an “estimate” but will need data to support it/must be able to audit it
 - Consider breaking the population into subsets (e.g.by employee class or by years of service or both). The more disaggregated the data/analysis is, the better the estimate will be



GASB 101 – Compensated Absences

What should I start to consider now?

- Adoption – Standard will be adopted retroactively. Must calculate the impact as of July 1, 2024
 - Could result in restatement of net position – if material
- Internal Service Fund?
 - Districts that account for compensated absences in an ISF may see an increase in the charge to other governmental funds
- The biggest change is needing to estimate that amount of leave that will be “used” in the future vs. historically focusing on amounts that will be paid out upon retirement. This may take some time, so plan ahead!



GASB 100 – Accounting Changes and Error Corrections

Overview

- This Statement improves the accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, comparable information for decision-making and will result in greater consistency in application in practice. Accounting changes, as defined in this standard, include changes in accounting principles, changes in accounting estimates, and changes to or within the financial reporting entity.
- Amends GASB 62
- Effective for June 30, 2024 year end



GASB 100 – Accounting Changes and Error Corrections

What do I need to know....

- Change in accounting principle & error corrections – adjust fund balance/net position as of beginning of year
- Changes within the reporting entity (ie fund moving from major to non-major) – adjust beginning balances as of the current period
- Change in estimates – account for prospectively
- Requires disclosure for any type of change mentioned



GASB Exposure Draft– Financial Reporting Model

- The objective is to make improvements to the financial reporting model including GASB Statement #34
- Expecting final standard to be issued in Q2 of 2024, expecting implementation date of June 30, 2026
- Originally was going to be a VERY significant standard, similar in magnitude to GASB 34
 - Was going to change fund accounting as we know it today and the presentation of the fund statements was going to significantly change
 - BUT – GASB decided to remove these two topics from the exposure draft



GASB Exposure Draft– Financial Reporting Model

- What remains in the exposure draft
 - MD&A – Clarifications/updated guidance
 - Budget schedule –
 - Report variance column between original and amended budget
 - Include analysis of significant variations between original/final budget amounts and between final budget/actual amounts in the notes to RSI
 - Updated guidance on “unusual/infrequent” accounting transactions (rare in K12)
 - Proprietary/Business type funds – changes to terminology and reporting descriptions for non-operating revenues and expenditures



Section 27k – Student Loan Repayments

Summary of program:

- District employees may be eligible to receive \$200 (or \$400 depending on the district) per month towards student loan repayments
- MCL 388.1627k allocated \$225M to this program
- However, once the application review process commences, proration is possible if current budget allocation will not fully fund all districts that applied.
- The district must apply on behalf of the employees and administer the program.



Section 27k – Student Loan Repayments

Funding to the District

- This will be paid through state aid payments
- MDE is anticipating that FY24 funding will be received in July (10/11th) with the final payment in August
- While not anticipated, it's possible that FY24 payments could be delayed until the October 2024 state aid payment. If so, October would include ALL of FY24 funding.
- While some employees may not qualify for the full allocation, the state will still be funding each employee at the full amount.
- TBD reconciliation process to determine any amounts owed back to the state for overpayments



Section 27k – Student Loan Repayments

Payments to employees

- Paragraph 3c of Section 27k “Districts must ensure that payments are made to participants on an equal monthly basis”
- MDE has communicated that districts must decide how to disburse the funds
- There does not appear to be any requirement for the district to fund amounts to employees prior to the district receiving 27k funding.
- Important to Note – “participant must only receive funding if they continue to be eligible”



Section 27k – Student Loan Repayments

Accounting considerations

- Recognize the expenditure and revenue in the same period. District is not obligated to make payments to employees without the receipt of Section 27k funding. Expenditure recognition should be determined based on EE meeting all eligibility requirements
- If 27k funding commences this summer (most likely) district will need to accrue for the expenditure/liability and related revenue/receivable
- Budget Warning! – Funding received in the summer will result in a gross up of revenue and expenditures
- If funding does not commence until the fall, no accounting impact at June 30, 2024
- Remember – this program will have no impact on the change in your fund balance but will impact metrics such as comparing fund balance as a % of revenue or expenditures



Section 27k – Student Loan Repayments

Current expectation for receiving funds this year

Expectation based on discussions with MDE - pending formal guidance from MDE

- Reimbursement is based on state's fiscal year – Oct. to Sept.
- Districts were required to indicate how many loan payments were made by each employee through the April 11 application deadline when applying
- MDE will then assume loan payments are made each remaining month, through September 2024



Section 27k – Student Loan Repayments

Current expectation for receiving funds this year

Example - Employee made 6 loan payments between Oct. 2023 and March 2024. District is a \$200 per month repayment amount

Anticipated 27k Funding via State Aid Payments – Funding will assume continued loan payments made from April to Sept. 2024 (remaining 6 payments of the year)

- July State Aid – 10/11th = \$2,181
- August State Aid – 1/11th = \$219

*Pending final guidance from MDE



Section 27k – Student Loan Repayments

Accounting considerations – Assuming July/August 2024 funding

- Assume the following facts in this example:
 - District has 50 employees (EE's) that qualified for the program and the district is a \$200 per month district. All EE's anticipated to each make 12 loan payments this year
 - Of the 50 employees:
 - 40 have loan payments that are \$200 per month or more
 - 10 have a \$100 per month loan payment
 - District will receive \$120,000 (50 EE's (x) 12 months (x) \$200)
 - District EE's are only eligible to receive \$108,000 in aggregate:
 - 40 EE's (x) 12 months (x) \$200
 - + 10 EE's (x) 12 months (x) \$100
 - July to September monthly reimbursement amounts are NOT FY24 expenditures as district EE's are not eligible to receive reimbursement until loan repayments have been made



Section 27k – Student Loan Repayments

Accounting considerations – Assuming July/August 2024 funding

Expenditure Journal Entries – at June 30, 2024

Debit: Expenditure \$81,000 ($\$108,000 \times 9/12$ month**)

- Function – Spread – based on actual
- Object – 2390 – Other special allowances
- Grant code – 273

(Credit): Accrued liability (\$81,000)

- Class code: 461

** Reminder, the July to September related amounts are expenditures in FY 25 as the EE's do not become eligible for those payments until FY25.



Section 27k – Student Loan Repayments

Accounting considerations – Assuming July/August 2024 funding

Revenue Journal Entries – at June 30, 2024

Debit: Due from other governmental units \$120,000

- Class code: 141

(Credit): State restricted revenue (\$81,000)

- Class code: 312

(Credit): Unearned revenue (\$39,000)

- Class code: 471



Section 27k – Student Loan Repayments

Are they taxable?

- If district establishes a formalized Educational Assistance Program (EAP), then up to \$5,250 per EE per year may be tax free (no payroll or income tax)
- Plan must be formalized and include certain provisions as outlined in Treasury Regs 1.127-2
- Amounts can be paid via payroll or AP check BUT amounts must still be reported in Box 14 of the W-2
- Note – this current tax provision expires on 12/31/25, but Section 27k currently scheduled to end 12/31/26 (assuming funds remaining or re-appropriated)
- Payments are not subject to MPSERS rates



Section 27k – Student Loan Repayments

Are they taxable?

- CAUTION
 - Note – The \$5,250 limit is based on payments to EE's during the Calendar year
 - Your district may already have an EAP. If EE's are already receiving other payments from the district under this provision, it's possible the additional \$200 per month will put them over the \$5,250 limit
 - \$400 Districts - First year payments may exceed \$5,250 per EE **IF the program is extended to FY 25**. Any excess is taxable
 - \$4,800 received through August 2024 (\$400 (x) 12 months)
 - + \$1,200 received between Oct and Dec 2024 state aid pmts
 - \$6,000 -> \$750 of this would be taxable



Federal Grants Update

- E-Rate Reminder
 - Not subject to single audit
 - Accounting reminders
- Draft compliance supplements – based on what has been released thus far, no major changes proposed for the common K12 grants
- Data Collection Form (DCF) – Reminder - no blanket extension provided for 2024 – must submit within 30 days of receiving audit reports
- Use caution when entering into leases or SBITAs with grant funds
 - Ex: ESSER III obligation end date September 30, 2024, funds not intended/allowed to cover a multi-year SBITA beyond this date regardless of installment or prepayment arrangement
- Cash Management Change – MDE is adopting federal guidance this year which will allow districts to request reimbursement once the expenditure has been incurred. No longer need to wait until the expenditure is liquidated. Should help with payroll accrual reimbursement timing.



Federal Grants Update

New Uniform Guidance updates just released!

- Single Audit requirement – threshold increased from \$750,000 to \$1,000,000 total federal expenditures
- Type A threshold –
 - Increased from \$750,000 to \$1,000,000
 - Larger districts – Type A threshold = 3% total federal expenditures when in excess of \$34M, up from \$25M
- Audit findings/questioned costs – if amount is “undetermined” or “not reported” auditor will have to explain why
- Equipment threshold increased from \$5,000 per item to \$10,000
- Changes are effective October 1, 2024 and MDE will need to incorporate these changes into the MDE Audit Manual



Audit Update – New Audit Standards Effective for June 30, 2024

- SAS 143 – *Auditing Accounting Estimates and Related Disclosures*
 - Enhanced auditor focus on internal controls over how the estimates are produced. Enhanced focus and requirements on how the auditor tests and documents procedures related to auditing of estimates
- SAS 145 - *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement*
 - Enhances the way in which we assess and document internal controls, especially around IT systems involved in accounting cycles
 - Clarifies and enhances certain aspects of the identification and assessment of risk of material misstatement



Questions??

