



# Accounting & Auditing Update

PRESENTED BY

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2026 MSBO Annual Conference



# Meet Your Presenter



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## Jennifer Watkins, CPA

- Principal
- Expertise – Education, Single Audit
- Leader of the Education Services Group and the Audit team
- Over 19 years of experience in auditing and consulting with school districts
- Member of Michigan Dept. of Education's (MDE) 1022 Accounting Manual and Audit Referent Group (A-133)
- Member of the Michigan School Business Officials and various Regional School Business Officials
- Presenter at MSBO conferences, MASB Annual Conference, MACPA Governmental Accounting & Auditing Conference and various firm trainings (external/internal)



**YEO & YEO**

LET'S THRIVE

# Objectives

- GASB 87 & 96 Considerations
- GASB 101, *Compensated Absences, refresher*
- GASB 103, *Financial Reporting Model Improvements*
- GASB 104, *Disclosure of Certain Capital Assets*
- GASB 105, *Subsequent Events*
- Uniform Guidance Update
- Reminders in Prep for Audit – Common Findings(if time allows)

# GASB 87 & 96 SBITA & Leases – Post Implementation

# SBITA & Leases – Post Implementation

- Many Governments were able to conclude they were immaterial
  - If under a certain threshold, you have the option to PASS on adjustments
- That doesn't mean to forget about them
  - Modifications can happen to existing agreements
  - New Leases/SBITAs can be entered into

# SBITA & Leases – Post Implementation

- What to watch for?
  - New agreements
    - To ensure they get recorded
    - Get proceeds/capital outlay amount
  - Prepayments
    - Affects how the lease liability is handled

# GASB 101

## Compensated Absences – Post Implementation

# GASB 101 – Compensated Absences

- This was effective last fiscal year - 6/30/25
- Governmental Funds – **no major change**
- Full Accrual Funds – **possible significant changes**
- The standard changed the old the focus from vested vs. nonvested benefits, to accruing a benefit when it is earned and then determining if it is more likely than not that it will be **used** or **paid out**

# GASB 101 – Compensated Absences

- Recognize when:
  - The leave is attributable to services already rendered
  - The leave accumulates
  - **The leave is more likely than not (more than 50%) to be used for time off or otherwise paid in cash or settled through noncash means**
- New standard differs than current practice in that the focus is not on vested vs. nonvested benefits, but accruing a benefit when it is earned and then determining if it is more likely than not that it will be used or paid out

# GASB 101 – Compensated Absences

- **Unused leave** = measured at the rate of the employee's pay as of the date of the financial statements (06/30)
  - Includes FICA/Medicare/ & DC Pension Employer Portion
  - Estimate can be used for DC portion (rate)
- **Paid Out Leave** = measured at the amount expected to be paid
  - Includes FICA/Medicare

# GASB 101 – Compensated Absences

- **Unused leave** = estimate anticipated amount to be used
  - Example of method – 3 or 5 year trend analysis
  - Depending on size of district –
    - By individual
    - By group (teachers, admin, etc.)
- **Paid Out Leave** = measured at the amount expected to be paid
  - This could be difficult
  - No longer 100% only if vested
  - Many factors could affect:
    - Vested period, hire date, turnover, etc.

# GASB 103

## Financial Reporting Model Improvements

# GASB 103-Financial Reporting Model Improvements

- Effective date for years beginning after June 15, 2025
- 6/30/26 – year ends
- This YEAR!

# GASB 103-Financial Reporting Model Improvements

- Objectives: To improve key components of the financial reporting model
  - **Management's discussion and analysis**
  - Unusual or infrequent items
  - Presentation of the proprietary fund statement of revenues, expenses, and changes in fund net position
  - Information about major component units in basic financial statements
  - **Budgetary comparison information**
  - Financial trends information in the statistical section

# Management's Discussion and Analysis

- School Districts can no longer rely on template-style MD&A narratives.
- Must provide clear explanations on enrollment changes, state funding levels, federal grants, staffing shifts, or capital project activity.
- GASB also stresses eliminating boilerplate language and avoiding duplication

# Management's Discussion and Analysis

- Covers 5 topics:
  1. Overview of the Financial Statements
  2. Financial Summary
  3. Detailed Analysis
  4. Significant Capital Asset and Long-Term Financing Activity
  5. Currently Known Facts, Decisions, or Conditions

# MD&A – Overview of the Financial Statements

- Include relationships of the statements to each other
- Focus on the differences in the types of information the statements provide

# MD&A – Financial Summary

- Provides condensed comparative financial information from the District-wide financial statements
  - Statement of Net Position
  - Statement of Activities
  - Include an analysis (**the why**) of significant fluctuations

# MD&A – Detailed Analysis

- Explain why significant changes occurred between the current period and prior period for the District as a whole and each major fund
- Refer to the analysis of capital assets and long-term debt – no duplication
- Should be written with the understanding that readers may not be from the District's geographical area
- Include significant policy changes and other economic factors
- Include analysis of fund balance/net position and results of operations of each major fund
- Address restrictions, commitments and assignments that affect availability of resources and future usage

# MD&A – Capital Asset & Long-Term Financing Activity

- Significant Capital Asset and Long-Term Financing Activity
- Capital Assets
  - Include intangible assets (including leases/SBITAs)
  - Policy changes
  - Additions and disposals
- Long-Term Financing
  - New debt
  - Changes in credit ratings & debt limits

# MD&A - Currently Known Facts, Decisions, or Conditions

- Factors that are expected to have a significant effect on financial position, or produce significant differences from the current period
  - Trends in data (population, customer base, income levels, enrollment, unemployment rates)
  - Factors used to develop next year's budget (changes to tax rates, fee amounts, revenue sources, new laws or regulations, changes in programs)
  - Expected changes in budgetary net position or fund balance
  - Actions taken related to pension, OPEB, capital asset improvement plans, lessee liabilities, etc.
  - Actions other parties have taken that will affect the government in a future period

# GASB 103 – MD&A

- Examples – Not just “What Happened” but “Why It Happened”
  - Weak (old boilerplate style): “Student enrollment decreased by 3% from prior year.”
  - GASB 103 aligned analysis: “Student enrollment decreased by 4% (approximately 420 students), primarily due to continued population shifts toward neighboring districts and increased participation in virtual charter programs.”
- Weak (old boilerplate style): “The School District issued bonds for building improvements.”
- GASB 103 aligned analysis: “ The District issued \$10.5 million in bonds to replace HVAC systems at two elementary schools. This decision was driven by energy-efficiency concerns and rising maintenance costs. The capital investment is projected to reduce utility expenses by 20% annually.”

# GASB 103 MD&A

- **MD&A tips**
  - **Explain why things changed**
  - **Avoid unnecessary duplication**
  - **Avoid boilerplate discussions**
  - **Objective and easy to read**
  - **Can use charts, graphs, or tables to illustrate the information**

# GASB 103- Unusual or Infrequent Items

- Definition has not changed

## Unusual nature

- The underlying event or transaction should possess a high degree of abnormality and be of a type clearly unrelated to, or only incidentally related to, the ordinary and typical activities of the government, taking into account the environment in which the government operates

## Infrequency of occurrence

- The underlying event or transaction should be of a type that would not reasonably be expected to recur in the foreseeable future, taking into account the environment in which the government operates

# GASB 103- Unusual or Infrequent Items

- Eliminates the old categories of “**extraordinary**” and “**special**” items and replaces them with a unified category: “**Unusual or infrequent items**”.
- Transactions or events that **either unusual in nature or infrequent in occurrence**
- Examples:
  - Burst pipe flooding a building
  - Fire in a mechanical room
  - Storm damage from a rare severe weather event
  - One time legal settlements
  - One time State Aid correction for prior year enrollment error

# GASB 103- Unusual or Infrequent Items

- Must be presented as the last flow of resources on the “income statements”
- Do not net inflows and outflows related to an event
- Footnote disclosure is required

# GASB 103- – Proprietary Fund Presentation

- GASB 103 requires that proprietary funds, such as Internal Service Funds, distinguish between operation and nonoperating revenues and expenses.
  - Must show a subtotal for operating income (loss) and noncapital subsidies before reporting any nonoperating revenues and expenses
- Most common the only Internal Service Fund seen within a School District is related to self-insurance
- Examples of Revenues and Expenses for Self-Insurance - Internal Service Fund
  - Charges for insurance premiums = Operating Revenue
  - Claims paid and administrative costs = Operating Expenses
  - Investment income from reserve balances = Nonoperating Revenue

# GASB 103 - Proprietary Fund Presentation

- New required format

Operating revenues (detailed)

Total operating revenues

Operating expenses (detailed)

Total operating expenses

Operating income (loss)

Noncapital subsidies (detailed)

Total noncapital subsidies

Operating income (loss) and noncapital subsidies

Other nonoperating revenues and expenses (detailed)

Total other nonoperating revenues and expenses

Income (loss) before unusual or infrequent items

Unusual or infrequent items (detailed)

Increase (decrease) in fund net position

Fund net position—beginning of period

Fund net position—end of period

# GASB 103- Major Component Unit Information

- Each major component unit must be presented separately in the reporting entity's statement of net position and statement of activities (if it doesn't reduce the readability of the statements)
  - If it does reduce readability- a combining statement of major component units should be presented after the fund financial statements
  - Rare for schools –
    - Significant Foundation or PTO that is governed (controlled) by the District

# GASB 103- Budgetary Comparison Information

- Requires budgetary comparison information to be presented as RSI
  - Present variances between **original and final budget** amounts
  - Present variances between final budget and actual amounts
  - **An explanation of significant variances is required to be presented in notes to RSI**

# GASB 103 – Budgetary Comparison Schedules

- Under GASB 103, budgetary comparison schedules:
  - Present clearer links between budget assumptions and actual results
  - Improve comparability across School Districts
  - Support stronger board oversight and community transparency
  - Highlight key drivers of variances, especially enrollment, funding changes, and operational cost shifts

# GASB 103 – Budgetary Comparison Schedules

- Items to consider
  - Footnote explanations should come from the District
  - Auditor will require all “significant” variances to be explained
    - Materiality?
  - Ask for schedule upfront during the audit
  - Auditors – provide to client as soon as possible to have them work on or add workpaper to audit to receive explanations during fieldwork
  - Auditor will be analyzing explanations for reasonableness and accuracy

# GASB 103 – Statistical Section

- Information about Changes in Net Position
  - In the statistical section of separately issued financial reports, governments engaged only in business-type and fiduciary activities should present revenues by major source for their business –type activities, distinguishing between operating, capital subsidy and other nonoperating revenues and expenses
- Will not affect schools

# GASB 104

## Disclosure of Certain Capital Assets

# GASB 104 – Disclosure of Certain Capital Assets

- Effective date for years beginning after June 15, 2025
  - 6/30/2026 year ends - This Year!
- Updates guidance for the following:
  - Requires separate disclosure within the capital assets footnote for the following:
    - Lease assets by major asset class
    - Intangible right to use assets by major asset class
    - Subscription assets
    - Other intangible assets by major asset class
  - Requires additional disclosures for capital assets held for sale

# GASB 104- Disclosure of Certain Capital Assets

- GASB believes that users evaluate information about lease and intangible assets differently than owned capital assets
  - Differences in valuation
  - Maintenance needs
  - Ownership interests
- GASB considered subscription assets as a whole
  - Some arrangements in GASB 96 have both tangible and intangible components
  - Since GASB 96 doesn't require disaggregation by type of asset, neither does this update

# GASB 104- Disclosure example

## Illustration 1—Capital Assets Note Disclosure

This illustration provides an example of the governmental activities capital assets note disclosure for a hypothetical government. The example illustrates some of the requirements in paragraph 4 of this Statement. Other presentations also may satisfy those requirements.

Capital asset activity for the year ended June 30, 20X2, was as follows (in thousands):

	Primary Government			Ending Balance
	Beginning Balance	Increases	Decreases	
Governmental activities:				
Capital assets not being depreciated:				
Land and improvements	\$ 29,484	\$ 2,020	\$ (4,358)	\$ 27,146
Construction in progress	2,915	13,220	(14,846)	1,289
Total capital assets not being depreciated	<u>32,399</u>	<u>15,240</u>	<u>(19,204)</u>	<u>28,435</u>
Capital assets being depreciated:				
Buildings and improvements	40,861	334	-	41,195
Equipment	32,110	1,544	(1,514)	32,140
Road network	72,885	10,219	-	83,104
Bridge network	18,775	4,627	-	23,402
Software	2,100	548	(650)	1,998
Lease assets:				
Buildings	25,821	209	-	26,030
Equipment	20,389	2,312	(2,456)	20,245
Subscription assets	5,490	687	(743)	5,434
Total capital assets being depreciated	<u>218,431</u>	<u>20,480</u>	<u>(5,363)</u>	<u>233,548</u>
Less accumulated depreciation for:				
Buildings and improvements	(10,358)	(691)	-	(11,049)
Equipment	(9,247)	(2,676)	1,040	(10,883)
Road network	(12,405)	(823)	-	(13,228)
Bridge network	(2,896)	(197)	-	(3,093)
Software	(543)	(110)	25	(628)
Lease assets:				
Buildings	(7,456)	(596)	-	(8,052)
Equipment	(5,864)	(1,782)	823	(6,823)
Subscription assets	(1,009)	(450)	209	(1,250)
Total accumulated depreciation	<u>(49,778)</u>	<u>(7,325)</u>	<u>2,097</u>	<u>(55,006)</u>
Governmental activities capital assets, net	<u>\$ 201,052</u>	<u>\$ 28,395</u>	<u>\$ (22,470)</u>	<u>\$ 206,977</u>

# GASB 104 – Capital Assets Held For Sale

- Definition: A capital asset is held for sale if
  - a) The government has decided to pursue the sale of the asset
  - b) It is probable (likely to occur) that the sale will be finalized within one year of the financial statement date
- Factors to consider:
  - Is the asset available for immediate sale in its present condition
  - Whether an active program to locate a buyer has been initiated, which may include putting the asset out for bid
  - Market conditions for selling that type of asset
  - Regulatory approvals needed to sell the asset

# GASB 104 – Capital Assets Held for Sale

- Evaluation of classification should be done **each reporting period**
- Still report the Capital Asset within the major class of capital asset
- But disclose the historical cost, accumulated depreciation (or amortization) by major class of asset as well as the carrying amount of debt for which assets are pledged as collateral for each major class of asset for both governmental and business type activities.

# GASB 104 – Capital Assets Held for Sale Disclosure Example

## **Illustration 2—Capital Assets Held for Sale Disclosure**

Included in capital assets are buildings that are capital assets held for sale. Those buildings are reported in governmental activities. They have a total historical cost of \$8.0 million and an accumulated depreciation of \$5.0 million, and they are pledged as collateral for debt with a balance of \$1.5 million.

# GASB 105

## Subsequent Events

# GASB 105 - *Subsequent Events*

- Standard issued December 2025
- Purpose: To enhance consistency, comparability, and transparency in evaluating and reporting events occurring after the financial statement date
- Goal: Clearer definitions of the evaluation period and recognition criteria for subsequent events
- Effective Date: Fiscal years beginning **after** June 15, 2026
- **Next fiscal year**

# GASB 105 - Subsequent Events

- Definition: Transactions/events occurring **after** the financial statement date but **before** the date financial statements are available to be issued
- Defines "available to be issued" as when statements are complete (GAAP-compliant) and necessary approvals are obtained
- Districts must disclose the specific date through which subsequent events were evaluated

# GASB 105 - Subsequent Events

- **Types of Subsequent Events**
- **Recognized Events:** Events providing additional evidence of conditions **existing** at year-end
  - Action – Adjust financial statement amounts
    - Example – settling a lawsuit that was pending at year-end
- **Non-Recognized Events:** Events providing evidence of conditions **not existing** at year-end
  - Action – Disclose in the notes to the financial statements, if material
    - Example – bond issuance after year-end

# GASB 105 - Subsequent Events

- **Example:**
- Settling a lawsuit that was pending at year-end
  - Type = recognized event as the lawsuit existed at year-end
  - Action = adjust the financial statement amounts
    - Record or adjust the contingent liability accrual in the year-end financial statements
    - Example accounting treatment
      - If a government has a pending lawsuit on 12/31/2025 and it settles on 2/10/2026 (before the financial statements are available to be issued) for \$1,000,000, the financial statements for fiscal year 2025 must be adjusted to accrue the \$1,000,000 as a contingent liability

# GASB 105 - Subsequent Events

- **Examples:**
- Bond issuance occurred after year-end
  - Type = non-recognized event as the bond issuance occurred after year-end
  - Action = disclose in the footnotes to the financial statements, if material
    - Disclosure is required if material, including the nature of the debt and the related issuance amounts
    - Example accounting treatment
      - If a District with a 6/30/2026 year-end issues \$5,000,000 in bonds on 7/15/2026, a footnote disclosure will be added to describe the issuance date, amount and nature of the debt in the fiscal year 2026 financial statements, assuming it is material

# GASB 105 - Subsequent Events

- **How to Prepare?**
  - Train staff on identifying recognized and non-recognized events
  - Update financial statements to include new disclosures
  - Reach out to auditors for assistance with implementation as a non-attest service
  - Practical – notice and retain information on significant events that occur after report date
  - Be proactive – send information that you believe to be significant to the auditor

# Uniform Guidance Updates

# Uniform Guidance Updates

- **Reminders for 2026 year-ends**
- Compliance requirement changes will be effective for **awards** after 10/1/2024. Watch for any amendments that indicate which standards will be followed.
- Single audit requirement threshold is increasing from \$750k to **\$1,000,000 in total expenditures** for fiscal year ends beginning on or after 10/1/2024
- Type A threshold is going to increase from \$750k to **\$1,000,000**

# Uniform Guidance Updates

- **Reminders for 2026 year-ends**
  - Questioned costs – if it is stated that an amount is undetermined or not reported, the auditor needs to explain why. Updated definition of questioned costs to include noncompliance, inadequate documentation or costs appear unreasonable
  - Equipment threshold increasing from \$5,000 to \$10,000

# Reminders in Prep for Audit – Common Findings

# Common Audit Issues

- **Excess Fund Balance**
  - Typically, Noncompliance – written comment in Governance Letter

# Common Audit Issues

## Budget Compliance Findings

- Uniform Budget Accounting Act compliance Issues
  - MDE specifies that Material violations of the General or Special Revenue Funds should be included as findings in the audit report. They list as examples:
    - General Fund Deficits
    - Over expending the budget authorized by the Board of Directors (legislative body)
  - MDE focuses on General Fund
    - Looking at fund balance, total revenues, expenditures and financing sources (uses).
    - MDE letter on Budget issues – no set trigger % (0% but take into account materiality)

# Common Audit Issues

## Budget Compliance Findings

- Audit Side - **Material noncompliance** if GF or Other funds\* are over budget in total **materially**
- Audit Side - If internal control issue, it could be a **material weakness**
  - Various unexplained variances (over or under)
  - Error in approval of budgets
- \* GF and Special Revenue funds are required to have approved budgets

# Common Audit Issues

## Budget Compliance Findings

We have seen an influx of budgets not being approved timely and improper budgeting or no budgeting for special revenue funds, specifically school/student activities fund

- Original budget must be approved prior to July 1, 2025
- Final budget must be approved by to June 30, 2026
- **Special revenue funds must also have budgets and should be updated**
  - Student Activity Funds

# Common Audit Issues

## Other Common Findings

- Reconciliations not being completed
- Commodities and bonus commodities not recorded (PAL Report)
- Lack of preparedness / audit readiness
- Audit adjustments
  - UAAL / 147C
  - 60 day – Deferred Inflows
  - Leases
  - Bond Refunding
- Lack of SKE (Skills, Knowledge, and Experience)

# Common Audit Issues

## Other Common Findings

- Food Service transfers over allowable amount (indirect rate) OR
  - No Food service transfer when have excess fund balance
- June progress billing is not recorded (fixed assets – CIP)/Accounts Payable
- Arbitrage recording
- Sinking fund expenditures charged that are either unallowable or are questionable

# Questions?

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