

Fund Level & District Wide Financial Statements

Notes to the Financial Statements

LAURA TACK, CPA, PLANTE & MORAN

QUINTON TRUDELL, CPA, PLANTE & MORAN

Presentation Objectives

To give you a better understanding of:

- The format of the financial statements
- Where information is derived for the notes to the financial statements
- Where to obtain guidance on preparing and reviewing the notes
- More recent and upcoming GASB's
- The Schedule of Expenditures of Federal Awards (SEFA) and federal awards report

Bringing it Together – Format of the Financial Statements

- Independent Auditor's Report
- Management Discussion and Analysis (MD&A)
- Statements – District Wide and Fund Level, including reconciliations
- Notes to the Financial Statements
- Required Supplemental Information
- Other Supplemental Information

Notes to the Financial Statements – Common Footnotes

- Note 1 – Nature of the Entity
- Note 2 - Significant Accounting Policies
- Note 3 – Stewardship, Compliance, and Accountability
- Note 4 – Deposits and Investments
- Note 5 – Fair Value Measurements
- Note 6 –Unavailable/Unearned Revenue
- Note 7 – Restricted Assets
- Note 8 – Capital Assets
- Note 9 – Interfund Receivables, Payables, and Transfers
- Note 10 – Long-term Debt
- Note 11 – Risk Management
- Note 12 – Michigan Public School Employees’ Retirement System (MPSERS)
- Note 13 – Tax Abatements
- Note 14 – Contingent Liabilities

Where to go for Guidance

- GASB 34 Report Checklist (EXHIBIT G)
- MDE 1022 Michigan School Accounting Manual
- Your Auditor!!!

GASB 54, Fund Balance and Fund Type

- Purpose:
 - Revised the definition of special revenue funds and clarified the definition of debt service, capital project and permanent fund types
 - Replaced the old classifications of fund balances into five new components

GASB 54, Fund Balance and Fund Type

- Five Fund Balance Components:
 - Nonspendable fund balance
 - Restricted fund balance
 - Committed fund balance
 - Assigned fund balance
 - Unassigned fund balance

GASB 54 – Before and After

	Before GASB 54	After GASB 54
Prepaid expenses	Accounting policy would dictate whether amts are shown as reserved	Categorize as NONSPENDABLE
Designations	Could be created by management (finance director or equivalent)	Individual authorized to ASSIGN fund balance will need to be authorized specifically to do so (written)
Encumbrances	Reserve for encumbrances	Reported within restricted, committed or assigned categories
Fund balance projected to be used in subsequent year's budget	Designation	Assignment
Working capital	Designation	Unassigned; footnote disclosure

GASB 54 – Fund Definitions

- **Special Revenue Funds** are only allowed to be reported if they are used to account for activities that are substantially funded by a specific external revenue source that is restricted or committed to a specific purpose
 - Comprise a “substantial portion of the inflows”
 - What if there are no current inflows?
 - Investment earnings and transfers are still allowed in a SRF if restricted, committed or assigned to that specific purpose

Special Revenue Funds under GASB 54

- Governments should discontinue reporting a special revenue fund, and instead report the resources and expenditures in the general fund, if the government no longer expects that a substantial portion of revenues will be derived from restricted or committed revenue sources
- Disclosure: Purpose of each major special revenue fund and each revenue source to be reported

GASB 63

- Statement 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*
 - Addressed questions associated with display of deferred inflows/outflows in balance sheet
 - Terminology changes
- Describes the Statement of Net Position
- Did NOT expand usage of deferrals

GASB 65

- *Statement 65, Items Previously Reported as Assets and Liabilities*
 - Closely related to GASB 63
 - Clarifies when certain asset & liability "types" should instead be reported as deferrals

GASB 68/75 - Overview

- GASB 68 – pension liability (effective for the June 30, 2015 year-end)
- GASB 75 – other post employment benefit (healthcare) liability (effective for the June 30, 2018 year-end)
 - Impact is to record the District's portion of unfunded statewide pension and OPEB obligations
 - Record obligations on government-wide statements – a big number!
 - NO IMPACT on the general fund, NO IMPACT on budgeting practices
 - Likely created a negative net position for most districts on the full accrual statements.

GASB 68/75 - Overview

- Pension and OPEB Liabilities for 6/30/22 – Will be allocated based on the MSPERS Plan year-end of September 30, 2021
- GASB 82 allows allocation to be performed based on reportable wages (instead of gross wages)
- Impact on audit testing
 - Auditor General's role

GASB 68/75 – Impact on Financial Statements

- Management's Discussion and Analysis (MD&A)
- Statement of Net Position and Statement of Activities
 - Statement of Net Position
 - Record a Net Pension and OPEB Liability
 - Record Deferred Outflow/Inflows
 - Likely created a negative Net Position for your district
- Statement of Activities
 - Record Pension and OPEB Expense

GASB 68/75 – Impact on Financial Statements

- Significant footnote disclosures
 - Benefit terms
 - # of participants
 - Contribution requirements
 - Assumptions
 - Support for the discount rate
 - Details of the changes in the net pension and OPEB liability
 - Sensitivity analysis
 - ETC.

GASB 68/75 – Impact on Financial Statements

- 10 years of changes in net pension and OPEB liabilities
 - Cost-sharing plan –
 - District's portion of the collective net pension/OPEB liability (percent and amount)
 - District's covered payroll
 - District's pension and OPEB liability/covered payroll as a percent
- 10-year comparison of funding status
 - Not applicable to cost-sharing plans
- 10 years of ARC/contractual v. actual contributions

GASB 68/75 – How do I do this?

- Most of the information will come from the ORS
 - Financial data tables (ORS calculates the proportionate share for all reporting units)
 - Sample language for Notes to Financial Statements
 - Sample schedules for Required Supplemental Information and some data for these schedules
 - Additional resources (FAQ, glossary, links to resources)
- Get in touch with your auditors

GASB 72 - Overview

- GASB 72 – Fair Value Measurement and Application
 - This pronouncement requires that districts report investments at fair market value
 - Changes in the Fair Market Value of an investment will be recognized into earnings each year
 - Additional disclosures will be required in the footnotes to outline the hierarchy of inputs and valuation technique used to arrive at fair value
 - Exceptions to this pronouncement include investments that meet definition in GASB 79 (primarily money market investments, 2a7 investment pools, investments in life insurance contracts, unallocated insurance contracts)

GASB 72 - Overview

- GASB 72 – Important Definitions
 - An investment is defined as “a security or other asset that (a) a government holds primarily for the purpose of income or profit and (b) has a present service capacity based solely on its ability to generate cash or to be sold to generate cash.”
 - Fair value is defined as “the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.”
- Hierarchy of Inputs
 - Level 1: Quoted price for identical assets or liabilities in an active market
 - Level 2: Quoted price for similar assets or liabilities in active markets or identical/similar assets or liabilities in markets that are not active
 - Level 3: The best information available to the district that does not meet the requirements for a Level 1 or Level 2 input

GASB 79 - Overview

- GASB 79 – Certain External Investment Pools and Pool Participants
 - Establishes criteria for an external investment pool to qualify for amortized cost treatment
 - If an external investment pool meets the criteria then the pool's participants should also measure the investments at amortized cost
 - If an external investment pool does not meet the criteria then the pool's participants should measure the investments at fair value
 - Additional disclosures will be required in the footnotes to disclose the requirements for qualifying for this treatment
 - On an annual basis you must get confirmation that the investment meets the criteria required by GASB 79 in order to be reported and disclosed at NAV

GASB 77 - Overview

- GASB 77 requires footnote disclosures for tax abatements that are:
 - Initiated by a local unit of government; and
 - Initiated by other governments but will impact a local unit
 - Public Schools in Michigan “fit” here
- Focus disclosures on the amount of tax revenue NOT COLLECTED as a result of tax abatement programs
- Required to disclose if reimbursed for any of the lost revenue
 - (e.g. debt service, sinking fund are NOT reimbursed whereas the general K12 operating millage is, made up through the state aid formula)
- Need to work with taxing authorities to obtain this information

GASB 77 - Overview

- All of the following must be present for GASB 77 to apply:
 - Promise by government to reduce taxes
 - Resulting from an agreement with an individual or entity
 - Individual or entity promises specific action
 - That specific action occurs after the agreement has been entered into
 - Specific action contributes to economic development or otherwise benefits the government or citizens

GASB 77 - Overview

- Possible GASB 77 Abatements (do they apply?)
 - IFT – Likely, pay close attention to whether the agreement was entered into before or after the taxpayer fulfilled their “promise”
 - Brownfield Redevelopment – Likely, as long as the developer is the one being reimbursed for remediation efforts
 - New Personal Property Tax Act – Likely, however obtaining information from the municipality may be difficult
 - Tax Increment Finance Authorities (TIFA) or Downtown Development Authority (DDA) – No, generally there are no specific agreements here and overall taxes are not reduced
- What Else is Excluded?
 - Tax exemptions (exemptions given to certain classes of people)
 - Tax deductions (deductions claimed at the individual level)
 - Other tax expenditure programs (tax reductions given without individual agreements)

GASB 88 - Overview

- Effective June 30, 2019
- Disclosure impact only!
- Footnotes must label all debt as either "direct borrowing" or "other"
- New disclosure requirements include:
 - Amount of unused line of credit
 - Assets pledged as collateral
 - Debt agreement terms of default/termination events
 - Acceleration clauses





GASB 84 - Overview

- Effective for June 30, 2021
- Established criteria for identifying what is considered a fiduciary activity and guidance on reporting fiduciary activities
- Any activities that no longer meet the definition of a fiduciary activity will now be reported in the governmental funds
- What does this mean?
 - Fiduciary section changed effective with the June 30, 2021 financial statements
 - For most districts, Student Activities are now reported as a new Special Revenue type fund (no longer in fiduciary)
 - Any activity staying as fiduciary, district will have additional reporting requirements as compared to before.

GASB 84 – Year of Adoption

- Any changes to fund balance due to moving activities from fiduciary to governmental funds required a restatement to opening fund balance (prior period adjustment)
- Any amounts staying as fiduciary generally required a prior period restatement to establish opening net position (before assets = liabilities, no net position was reported)
- Emphasis of matter paragraph added to auditor report letter only in year of adoption
- Reminder – “agency” funds are now “custodial” funds
- 1022 Manual – MDE updated chart of accounts to allow fund 29 to be used for Student Groups and also created new codes for reporting of revenue and expenditures. See MDE Bulletin 1022 Change notice #29 as an additional resource

GASB 84 - Overview

	Must meet <u>all</u> the following criteria:		<u>PLUS</u> <u>Any</u> of the following : 
	Assets controlled by School District		Assets held in a qualifying trust in which School District is not beneficiary, legally protected, and dedicated to providing benefits to recipients
	Assets not derived from own source revenues		Assets held for the benefit of individuals without the School District having administrative or direct financial involvement (1)
	Assets not derived from government-mandated or voluntary nonexchange transactions		Assets held for the benefit of outside organizations not part of the School Districts reporting entity

(1) – is “the district” calling the shots

GASB 87 - Overview

- Single model for lease accounting
- Principle that ALL leases are financings of the right to use an underlying asset
- Requires recognition of certain lease assets and liabilities on Full Accrual financial statements
- Lessee – recognizes lease liability and right to use asset
- Lessor – recognizes lease receivable and deferred inflow of resources
- Effective for June 30, 2022 fiscal year

Schedule of Expenditures of Federal Awards (SEFA) and Federal Awards Audit

Summary of Discussion

- Report Format and Content
- Schedule of Expenditures of Federal Awards
- Corrective Action Plan
- Data Collection Form

Report Format and Content

- Report includes:
 - 3 Report Letters
 - Schedule of Expenditures of Federal Awards (SEFA)
 - Notes to SEFA
 - Schedule of Findings and Questioned Costs

Report Letters

- Report on Schedule of Expenditures of Federal Awards
- Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* (“GAGAS Letter”)
- Report on Compliance for Each Major Federal Program; Report on Internal Control over Compliance

SEFA (format prescribed by MDE)

- Listing of all Federal Grants that had activity in the current year
- Grant Number
- CFDA # (Catalog of Federal Domestic Assistance)
- Award Amount
- Cash Received
- Expenditures
- Sub Recipient Column

Notes to SEFA

- Standard Footnotes

- Basis of Presentation
- Significant Accounting Policies
- Noncash Assistance
- Grant Section Auditor's Report

- Adjustments Footnote

- The purpose of amounts in the Adjustments/Transfer column of SEFA must be disclosed

Schedule of Findings & Questioned Costs

- Section I – Summary of Auditor's Results
 - 2 Subsections
 - (1) Financial Statements
 - (2) Federal Awards
 - Discloses what audit opinion rendered
 - Identifies if there were internal control issues
 - Identification of Major Programs
 - Was auditee considered Low Risk?

Schedule of Findings & Questioned Costs (Cont'd)

- Section II – Financial Statement Audit Findings
 - Listing of finding identified in audit of Basic Financial Statements
- Section III – Federal Program Audit Findings
 - Listing of findings identified in audit of Federal Major Programs

Corrective Action Plan

- Must be completed if your District has a finding reported within the SFQC
- Must include:
 - Description of finding
 - Plan/measures taken to resolve issue
 - Contact person responsible for CAP
 - Anticipated completion date
- Must be on district letterhead

Summary Schedule of Prior Audit Findings

- Must be completed if your District has a finding reported within the SFQC in the prior year
- Prepared by the district at the beginning of the audit
- Must include:
 - Description of finding
 - Status of issue – was it resolved?
 - If not resolved, reference to current year finding
- Must be on district letterhead

Data Collection Form

- Form is required by law
- Must contain same data as the SEFA
 - New information to be included beginning in 2019:
 - Notes to the SEFA
 - Text of audit findings
 - Corrective Action Plan
 - Fiscal year start date
 - If revision is made after submission, must identify items that changed
- How does it get processed?
- What is the District's role?

Resources

MDE School Auditing Manual

https://www.michigan.gov/documents/mde/2020-2021-Michigan_School_Auditing_Manual_730131_7.pdf

Catalog of Federal Domestic Assistance

<https://sam.gov/content/assistance-listings>

Federal Audit Clearinghouse

<https://harvester.census.gov/facweb/>

Compliance Supplement: US Office of Management and Budget

<https://www.whitehouse.gov/omb/>

List of Parties Excluded From Federal Procurement or Non- Procurement Programs

<https://www.sam.gov/SAM/>

Link to example of written grant procedures

http://www.msbo.org/sites/default/files/lib-fedaward_pronov17.docx

Resources

Online CFR (including codification by Federal Agencies)

<https://ecfr.federalregister.gov/>

COFAR Website:

<https://cfo.gov/cofar/>

MDE Guidance Grants

<https://www.michigan.gov/mde/0,4615,7-140-5236---,00.html>

Plante Moran Webinars and Articles

<https://www.plantemoran.com/explore-our-thinking>

Questions?

THANK YOU!!!