2019 Compliance Supplement and DCF Submission Updates

Presented by:
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June 5, 2019
Overview

• 2019 Compliance Supplement - big changes….again!
  ➢ Stand-alone document
  ➢ Fewer federal resources – reduce regulation
  ➢ Programmatic updates

• Data Collection Form (DCF) – It was just too easy

**2018-19 Michigan School Auditing Manual issued by MDE will not reflect updates to the 2019 Compliance Supplement or Data Collection Form**

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2019 Compliance Supplement

• Federal requirements by program:
  ➢ Unique CFDA number
  ➢ Program objective
  ➢ Detail of applicable compliance requirements; suggested audit procedures to test compliance

• Major changes
  ➢ 6-Requirement mandate
  ➢ Programmatic
  ➢ Part 6 – Internal Controls
2019 Compliance Supplement

6-Requirement Mandate

- Federal agencies required by OMB limit each program to 6 applicable compliance areas
  - Draft compliance matrix available
    - [2019 Draft Matrix of Compliance Requirements](www.HungerfordNichols.com)
  - Activities Allowed/Allowable Costs – treated as one

<table>
<thead>
<tr>
<th>Program Number</th>
<th>A</th>
<th>B</th>
<th>C</th>
<th>D</th>
<th>E</th>
<th>F</th>
<th>G</th>
<th>H</th>
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</table>

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2019 Compliance Supplement

Programmatic Changes

• Cleanup due to 12:6 requirement mandate

• Federal agencies were asked to select several programs within their portfolio and perform a closer review than usual

• Student Financial Assistance program:
  ➢ Education won’t mandate that it be an automatic major program
  ➢ Perkins loan impact

• Procurement
  ➢ Still unsettled as it relates to micro-purchase threshold and simplified acquisition threshold
  ➢ Timing of implementation; need for federal agency approval
  ➢ OMB will likely provide relief from development of audit findings

OMB Memo M18-18

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2019 Compliance Supplement

Part 6 – Internal Controls

• Part 6:
  ➢ Objectives of internal control over compliance
  ➢ COSO components and principles of internal control – useful examples of characteristics related to each of the 5 components of internal control

• Major changes:
  ➢ More closely align with how auditors consider internal controls
  ➢ Background discussion on significant internal control concepts
  ➢ Summary of requirements for internal control under UG
    ➢ I/C requirements for nonfederal entities: 2 CFR 200.303
    ➢ I/C requirements for auditors: 2 CFR 200.514(c)
Part 6 – Internal Controls

- Major changes:
  - More illustrative controls: entity-wide and specific to each compliance requirement
  - Entity wide controls – governance controls that apply to most, if not all, types of compliance requirements for one or more Federal programs
  - Specific controls – operational level controls that apply to individual types of compliance requirements
DCF Submission

• New DCF –effective for use in Single Audits with fiscal periods ending in 2019, 2020, and 2021

• Late submissions or prior year revisions?
  ➢ Use old form- OMB 0348-0057
  ➢ Only effective back to audit year 2013

• View draft of submission form, comments from public and responses:  https://harvester.census.gov/facweb/
DCF Submission

Major Changes

• Text from audit report will need to be added.
  ➢ Notes to the SEFA
  ➢ Audit findings/Corrective action plans

• Improvements to IDES (data entry system for submitting single audit package to Federal Audit Clearinghouse)
  ➢ Option to generate customizable SEFA to include in reporting package.
  ➢ Edit check for Employer ID number
  ➢ Worksheet-type function added to assist in transferring text
  ➢ No charts/tables – notation within the transferred text will need to be included to refer reader to the underlying note

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### PART II: FEDERAL AWARDS - Continued

#### 2. Notes to the Schedule of Expenditures of Federal Awards (SEFA)

**Note 1:** Describe the significant accounting policies used in preparing the SEFA. (2 CFR 200.510(b)(6))

| 8,000 characters |

**Note 2:** Did the auditee use the de minimis cost rate? (2 CFR 200.414(f))

- Yes, the auditee used the de minimis cost rate.
- No, the auditee did not use the de minimis cost rate.
- Both. Please explain.

| 8,000 characters |

#### Additional Notes

All additional notes included in the reporting package should be entered in this section and will be automatically numbered sequentially by the OES system as they are entered.

**Note 3:** Loan/loan guarantee outstanding balances.

Note 3 will auto-populate with the outstanding loan balance information entered into Part II, item 1 (a)(6) and (i) for awards identified as being a Federal loan or loan guarantee in Part II, item 1(i). The auto-generated text may be edited as needed to match the loan information from the Notes in the reporting package.

| 75 characters |

**Note 4:** Enter note title.

Enter additional note text.

| 75 characters |

| 8,000 characters |

| 8,000 characters |
### DCF – Sneak Preview

**PART III: INFORMATION FROM THE SCHEDULE OF FINDINGS AND QUESTIONED COSTS - Continued**

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<th>a. Audit Finding Reference Number</th>
<th>b. Audit Finding Text</th>
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<tbody>
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<td>YYY - XXX</td>
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</tbody>
</table>

Enter the text of the finding exactly as it appears in the Schedule of Findings and Questioned Costs, excluding charts or tables. You may copy and paste this text directly from the reporting package.

20,000 characters

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DCF – Sneak Preview
Questions?
Nutrition Program (SFAs) – Common Issues/Findings

PRESENTED BY
Jennifer Watkins, CPA
Principal
Nutrition Topics

• PAL report
• Eligibility
• Excess fund balance
• Equipment purchases and tracking
• PLE
• Indirect vs Direct Costs
• Bad debts
• Fraud
PAL Report

• Make sure that you are using the Final PAL report
• Include all Entitlement
  • Processed
  • Brown Box
  • DOD
  • Produce Pilot
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<th>Month</th>
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<th>Brown Box</th>
<th>(Proc+BB) Total</th>
<th>DoD</th>
<th>Total</th>
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<td>May</td>
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<td>June</td>
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</table>

Entitlement Dollars: $210,612.27 (655,559 Meals @ 0.3350 Meal Rate)
E. Eligibility

2. Review selected applications to determine applicants are properly accounted for and applications are properly completed.
3. Determine the number of free and reduced meals claimed for reimbursement. This amount should not exceed the number of approved applications on file and from children eligible from Direct Certification. Determine that the number of applications reported on the monthly claim does not include applications for students found ineligible or who had departed the building before the beginning of the month.
Eligibility

4. Review applications to determine that changes in eligibility that reflect an increase in benefits are made within three days, and that changes in eligibility that reflect a decrease in benefits due to verification of parental request are made within ten days of notification of such changes.

5. Review the "benefit issuance" list (roster of approved free and reduced applicants). Approved names at point of service must match the approved applications on file and from the Direct Certification list.

6. Review the collection procedures to ensure eligible participants, such as homeless, migrant, runaway, and Head Start students; are not overlooked.

7. Verify that the Direct Certification Report is pulled from the MSDS at least three times per school year.

8. Summer Food Service Program (SFSP)
   a. Area eligibility. Review that the school district qualifies as area eligible - it has 50% or more free and reduced-price children enrolled in the school district or, based on the most recent census data available, at least 50% of the children residing in that area are eligible for free or reduced-price school meals under NSLP and the SBP.
   b. Enrolled program. Review that 50% of enrolled children are eligible for free or reduced-price meals.
Eligibility Questioned costs

**NOTE:** Questioned costs must be calculated for all eligible children based on USDA guidelines for free, reduced-price, and paid meals claimed for reimbursement. These reimbursements should not be extrapolated but limited to the actual number of meals claimed for each individual child that is affected. These questioned costs must represent the actual meals served and claimed in the respective months, times the appropriate USDA reimbursement rate(s) based on each individual student’s income eligibility.
Excess Fund Balance

• Reminders
  • All program and non-program revenues are considered federal funds
  • Must limit cash resources not to exceed three months’ average expenditures.
  • Excess fund balance spend down plans must be formally submitted or have reduced rates of federal reimbursement.
  • MDE sends notification each spring and Districts must spend funds by June 30th of the current year or request a carryover extension
### Excess Fund Balance

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<th>Description</th>
<th>Amount</th>
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<td>SFA Beginning Fund Balance</td>
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<tr>
<td>Total School Meal Revenue</td>
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<td>Total School Meals cost w/o capital outlay</td>
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<td>Capital Outlay</td>
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<td>PPA</td>
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<tr>
<td>SFA Ending Fund Balance</td>
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<tr>
<td>Allowable Fund Balance</td>
<td>$ 425,000.00</td>
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<tr>
<td>Excess Fund Balance (if neg)</td>
<td>$(75,000.00)</td>
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</table>
Excess Fund Balance – Ways to Spend

• Increase quality of meals
• Update the cafeteria – create a space that is eye catching and provides a positive setting for healthy living
• Expand or start a breakfast program
• Add point of sale locations
  • Increases students ability to have access to more options quickly
  • Lunch is a short window – this creates more ease and efficiency
• USE PLE exemption
Excess Fund Balance – Ways to Spend

• Eliminate the price for reduced meals to students at breakfast or lunch

At the discretion of the School Food Authorities (SFA), participating schools and institutions that are not operating a special provision may offer meals at no cost to students who would otherwise qualify for reduced price benefits. The expenditures associated with covering the reduced price student payments may be funded from the nonprofit food service account. Schools electing to take advantage of this flexibility continue to receive Federal reimbursement based on meals claimed by students in the reduced price category. Only paid students will be charged for meals. SFAs are permitted to implement this option selectively between the Programs (National School Lunch and School Breakfast) and serving sites they operate.
Excess Fund Balance

Noncompliance:

• If there is a spenddown plan in place it should still be noncompliance- but the response will be that there is a plan in place
• Is it material? Material Noncompliance
  • Possible qualification of report over Federal Program
Equipment

Equipment is defined as tangible, nonexpendable personable property having a useful life of more than one year and an acquisition cost of $5,000 or more per unit. If the SFA purchases equipment that has a useful life of more than one year with funds from the NSFSA and the cost exceeds the SFA’s capitalization threshold or $5,000 (whichever is less), the SFA is required to obtain prior written approval from MDE before incurring the cost of equipment. MDE does not require SFAs that purchase equipment included on the USDA pre-approved list to submit a request to MDE for prior approval if, and when, those annual expenditures are less than $25,000 cumulative per building, per year. In addition, if an SFA chooses to select equipment that is not included on the USDA pre-approved list, the SFA must submit an equipment request to MDE for prior approval before purchasing the item, as required by 2 CFR Part 200.439.
Equipment

All purchases must meet the requirements of being necessary, reasonable, and allocable. SFAs must continue following all applicable federal, state, and local procurement procedures. The USDA pre-approved list is included in MDE Administrative Policy Memo. For additional clarification, refer to SY 2015-2016 Administrative Policy #13 - Compliance Requirements for Equipment Requests.

Items purchased with funds from the NSFSA which cost less than $5,000 (such as computers, iPads, assistive technology) must be properly tagged and appropriately tracked. Additionally, written procedures should be developed which include the process for safeguarding these items purchased with federal funds. Please refer to the MDE memo issued February 2, 2017, regarding Tangible Personal Property.
Equipment

• Having an approved Excess Fund Balance Spend Down Plan does not negate the need for equipment approval
  • Need prior written approval for equipment and capital expenditures over $5,000
  • Exception – if it is on the pre-approval list if the cost is below $25,000 cumulatively per building per year
  • Should have a minimum of 3 quotes prior to obtaining MDE approval
  • Failure to obtain prior approval is an unallowable cost and the food service account must be reimbursed with non-federal dollars
Equipment testing

F. Equipment Test:
1. Obtain SFA’s policies and procedures for equipment management and monitoring.
2. Test expenditures for capital outlay to determine that the SFA obtained MDE prior approval and/or verify that the item was on the USDA approved list and did not exceed the $25,000 cumulative threshold per building. For additional clarification, refer to SY 2015-2016 Administrative Policy #13 - Compliance Requirements for Equipment Requests.
3. Determine the equipment purchased with the NSFSA was properly tagged and appropriately inventoried.
4. An equipment inventory must be maintained by the public school district indicating the federal funding source, date purchased, description, serial number, cost, tag number, and location of the equipment and any disposition data including the date of disposal and sale price of the property.
5. If the school district transferred or disposed of equipment purchased with federal funds, determine if it followed the appropriate federal criteria.
6. If an SFA purchased items of interest costing less than $5,000 each (such as computers, iPads, assistive technology), determine that the written procedure for Equipment includes a process for properly tagging, tracking and safeguarding these items as outlined in the MDE Memo issued February 2, 2017, regarding Tangible Personal Property.
Equipment

• Take a-ways
  • Get prior approval if over $5k
  • If no prior approval, it is considered an unallowable costs
  • Properly account for equipment- tag, keep listing
  • Take inventory every 2 years

• In years past – Districts said all equipment was purchased with “non-federal $$” However, it has been cleared up that all revenue in the SFA is treated as federal and restricted for SFA
PLE Tool

USDA has issued guidance on this topic. The USDA memo related to the PLE tool is available at USDA Memo SP12-2018 Paid Lunch Equity: Guidance for School Year 2018-19. Not all SFAs will be required to adjust prices or find alternative sources of funding for paid lunches. Applying this provision using federal reimbursement rates, SFAs now charging, on average, $2.92 or more for a paid lunch would not be required to adjust prices in School Year (SY) 2018-2019. SFAs currently charging, on average, less than $2.92 for a paid lunch may be required to either gradually increase prices or provide additional non-Federal support for its lunches.

For SY 2018-2019, SFAs that charged on average less than $2.92 for paid lunches in SY 2018-2019 may be required to adjust their average price or provide additional non-Federal funds to the NSFSA. The amount of the per-meal increase will be calculated using 2 percent rate increase plus the Consumer Price Index of 2.31 percent, totaling 4.31 percent.

In general, when the adjusted average price is more than the current price, the SFA would have to either increase its average paid lunch price to the adjusted average price or provide additional non-Federal support for its paid lunches. The law caps the required increase in the average paid lunch price at ten cents in any year although SFAs can choose to raise prices more than ten cents.
PLE Tool – exemption for this year

In Section 776 of the Consolidated Appropriations Act, 2018 (Public Law 115-141) (the Act), Congress provides that only school food authorities (SFAs) that had a negative balance in the nonprofit school food service account as of January 31, 2018, shall be required to establish prices for paid lunches according to the Paid Lunch Equity (PLE) provisions in Section 12(p) of the Richard B. Russell National School Lunch Act, 42 U.S.C. 1760(p) and implemented in National School Lunch Program regulations at 7 CFR 210.14(e).

Consistent with the terms of the Act this memorandum provides notice that any SFA with a positive or zero balance in its nonprofit school food service account as of January 31, 2018, is exempt from PLE requirements found at 7 CFR 210.14(e) for school year (SY) 2018-19. SFAs that had a negative balance in the nonprofit school food service account as of January 31, 2018 must follow PLE requirements when establishing their prices for paid lunches in SY 2018-19. The PLE Tool was distributed to State Agencies via email.
Although this flexibility has been offered to SFAs with a positive fund balance, paid meal prices may still be raised if an SFA sees fit for their situation. SFAs with a positive fund balance should still complete the SY 2018-2019 PLE Tool as the PLE Tools are an annual requirement and are dependent on previous years to carry on the applicable requirement price. SFAs with a positive fund balance should document the PLE Tool completion and their fund balance as of January 31, 2018, if they choose to not raise meal prices in accordance with this special one-year exemption. Documentation should consist of an updated Detailed General Ledger for the Food Service Fund (Fund 25) as of January 31 that clearly indicates the fund balance information.
Direct vs Indirect Costs

- [https://fns-prod.azureedge.net/sites/default/files/cn/SP60-2016a.pdf](https://fns-prod.azureedge.net/sites/default/files/cn/SP60-2016a.pdf)

Direct costs are incurred specifically for a program or other cost objective, and can be readily identified to a particular objective such as school food service. Examples of direct costs in SMPs include, but are not limited to food, wages and salaries of the staff working in the school food service, and supplies specifically used in the school food service.

Indirect costs are incurred for the benefit of multiple programs, functions, or other cost objectives and therefore cannot be identified readily and specifically with a particular program or other cost objective. Indirect costs typically support administrative overhead functions such as fringe benefits, accounting, payroll, purchasing, facilities management, utilities, etc.
## Direct and Indirect Costs

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<td>Payroll services</td>
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<td>Cost of purchased food</td>
<td>Human resources</td>
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<td>Food service supplies</td>
<td>Workers’ compensation</td>
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<td>Media/promotional materials relating to the food service</td>
<td>Procurement</td>
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<td>Capital expenditures relating to food service (e.g., food service</td>
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<td>(e.g., food service equipment purchases)</td>
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<td>Water</td>
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<td>Trash</td>
</tr>
<tr>
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<td>Superintendent’s Office</td>
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Direct and Indirect Costs

• Most common we see at districts
  • Custodial
  • Utilities
Direct and Indirect Costs

**Summary of Determining Direct and Indirect Costs**

Questions to contemplate in determining whether a cost is direct or indirect include:

- Does the cost benefit multiple programs or other cost objectives, or solely the school food service?
- Does the cost have a direct relationship to the school food service?
- What guidance do the Federal cost principles provide for this cost?
- How are similar costs treated in other cost objectives of the SFA?
- How has this cost been treated historically by the SFA?
Direct and Indirect Costs

Custodial Expense

Custodial expenses

Custodial expenses generally include the costs of cleaning the entire school. The food service benefits from custodial services because the kitchen, food preparation, and food serving areas are also cleaned. However, the question arises of whether the custodial expense can be charged as a direct or indirect expense. As we stated earlier, for the custodial expense to be a direct cost, the cost must be identified specifically with a particular cost objective.

How would an SFA charge custodial expenses directly? Some SFAs document the hours that custodians work cleaning food service areas such as the kitchen, food preparation, and food serving areas through a time reporting system, such as that described in 2 CFR 200.430. The time reporting system provides the exact hours a custodian cleans the food service area and the rest of the school. The SFA then charges the custodial expenses for cleaning the school food service area as a direct expense.
Direct and Indirect Costs

Custodial Expense

Alternatively, the custodial expenses may be charged as an indirect cost to the school food service by including them in the indirect cost pool if a methodology or process for determining this item's direct relation to the school food service operations is not available. The key point to note is that the custodial expense may be charged as a direct or indirect cost, as long as it is treated consistently in all activities of the SFA. For example, this cost item may not be charged as a direct cost to the NSFSA if custodial expenses that benefited other programs, functions, and activities of the SFA were charged to such cost objectives as indirect costs. The reasoning is that it would not be equitable for the custodial expenses to be charged through a time reporting system solely for the school food service and not similarly for other programs.

Custodial expenses may be charged as a direct or indirect cost, as long as it is treated consistently in all activities of the SFA. An SFA may not charge custodial expenses as a direct cost to the school food service (e.g., through a time reporting system) and as an indirect cost for other programs.
Direct and Indirect Costs
Utility Expense

Utility Expenses

The SFA in general and school food service in particular, need utilities such as electricity and gas to operate. While utility costs are often treated as indirect costs, they may be charged as a direct cost if there is a methodology to quantify exactly how much energy was utilized to prepare and serve meals. For example, the use of a separate utility meter for school food service would provide such quantification. The main point to note is that charges like utilities can be allocated directly or indirectly, depending on whether a methodology exists to specifically identify the amount of utilities attributable to the school food service.
Direct and Indirect Costs

• For Indirect Costs
  • Check your methodology
  • Do not exceed max
  • Treat consistently across all programs
  • Keep support for calculation
Bad Debts

• USDA Memo SP 46-2016s
  • Required Meal Charging Policy for districts
    • Must be in writing
    • Needs to include bad debt policy
    • As of July 1, 2017
    • SFA and business office should work together

• Overall this is old news- however, there was confusion at first on what was considered a “bad debt’ and what journal entry should be made
Bad Debts

• Bad debt expense
  • Is defined as uncollectable meal balances for inactive students as of June 30th that have not been collected by December 31st of the same calendar year (six months).
  • No later than December 31st each year the SFA must the accounts off and bad debt expense is an unallowable costs to the SFA
  • Must use funds from non-federal funds to make the SFA whole
  • The funds may come from the district general fund, local funding, school or community organizations such as the PTA, or any other non-Federal source.
Bad Debts

• Step One: Transfer an amount equal to the bad debts being removed from the Food Service Fund and transferred to the General Fund:
  - DEBIT Other Business Services (Bad Debt) Expense 11,259,7910
  - CREDIT Cash

• Step Two: In the Food Service Fund, remove the uncollectible portion from the receivable
  - DEBIT Cash
  - CREDIT Accounts Receivable
Bad Debts

• More Guidance:
  • MDE Memo #4- For guidance and frequently asked questions
  • See 1022 Accounting manual Section II - E.17 Food Service Uncollectable Balance Write-Offs
Fraud Considerations

• Large food service fund balance-
  • Could your district be recording revenue that belongs in Food Service in other funds?

• Food Service employee could be voiding or cancelling sales after they receive cash and pocket the cash

• Food Service employee makes orders, items are delivered, and never put into the inventory system, just taken home

• Food Service employees purposefully make more food and take home or use for side catering business
Questions
Thank you!

Jennifer Watkins, CPA
Principal
Things to Consider in Preparation for your Audit

Presenter:
Jeff Straus, CPA
Principal
jstraus@manercpa.com
Why is it Important to Prepare for my Audit

• Reduce disruption to your staff and to your District’s day-to-day operations

• Audit completed more efficiently (November 1st deadline)

• Keep cost down

• Gain a greater understanding of your internal control environment and financial health
Key to a Successful Audit

Communication

• Remember to **proactively communicate** with your auditor to avoid any surprises or adjustments during fieldwork

• It is important to define expectations early in the audit process
What can you do to Prepare for your Audit?

- Benefits of preparing a month-end checklist
  - Helps ensure that all sections are completed and reviewed in a timely fashion
  - Documents the districts review procedures as they relate to proper internal controls
  - Provides an expectation of what tasks must be completed each month
  - Provides a better understanding of where the district is from a financial standpoint on a monthly basis
What can you do to Prepare for your Audit?

• Important items to include when creating your month-end checklist:
  • Remember not to neglect the balance sheet. Be aware of the:
    • Bank reconciliations
    • Accounts receivables
    • Accounts payables
    • Other accruals
  • Knowing what the accruals are will help in the budgeting process and avoid a 621 violation
  • Staying up-to-date on a monthly basis will make preparing for the year end audit much easier
  • Be aware of your Property Tax Collection
Ensure you Meet the Filing Deadline

• **Have your auditor consider performing preliminary work prior to starting final audit fieldwork**
  • Set-up a planning meeting with your auditor early
  • Determine how to communicate with those charged with governance
    • Obtain contact information for board member or other individuals charged with governance (finance committee)
  • Determine who the engagement team will consist of
• **Identify dates for interim and final fieldwork**
  • Identify dates and deadlines for drafts and final audit reports
Ensure you Meet the Filing Deadline

- Have your auditor consider performing preliminary work prior to starting final audit fieldwork (Continued)
  - Review the PBC (Prepared by Client) list and assign duties to staff
    - Determine who will do what (i.e. – depreciation schedules or writing the financial statements)
  - Discuss work paper formats
  - Review Michigan School Auditing Manual and audit risk alert
Ensure you Meet the Filing Deadline

• Interim Audit Work:
  • Update internal control procedures
  • Review and identify major federal award programs
  • Update the District’s organizational chart
  • Provide any updates for new contracts, leases, bond transactions or refundings
Ensure you Meet the Filing Deadline

• Interim Audit Work (Concluded):
  • Update fixed asset additions and disposals
  • Provide all the necessary information for sample selections
  • Complete walkthroughs of key audit areas
  • Prepare all necessary confirmations
  • Discuss any questions your District may have regarding GASB 84
Ensure you Meet the Filing Deadline

• Prior to “Final fieldwork,” but after “Interim fieldwork”
  • Provide in electronic format the following items:
    • Trial Balance
    • Original Budget
    • Final Budget
    • General Ledger detail
Ensure you Meet the Filing Deadline

• Prior to “Final fieldwork,” but after “Interim fieldwork” (Concluded)
  • Provide schedules for all long-term assets and liabilities:
    • Capital assets – identify current year additions/disposals
    • Bonded debt
    • Notes payable
    • Compensated absences
    • Termination benefits
    • Early retirement incentives
• If possible provide the auditor with any completed work papers
• Finalize board meeting dates
Ensure you Meet the Filing Deadline

• Final Audit fieldwork
  • Have all requested schedules and documents completed on the first day of fieldwork
  • For accounting systems that operate on batch systems
    • Have detail available for each batch and reconcile to the general ledger
  • All major balance sheet accounts should be reconciled
    • Supporting detail should be provided
Ensure you Meet the Filing Deadline

• Final Audit fieldwork (Concluded):
  • Provide reconciliations of the following items:
    • Property taxes
    • State Aid
    • Federal Aid
    • Reconcile payroll, FICA, and retirement
    • Provide federal expenditures by federal grant and have the SEFA (Schedule of Expenditures of Federal Awards) completed
Ensure you Meet the Filing Deadline

• Management Letter and Findings
  • Review prior year management letter recommendations
  • Draft a response for recommendations that were not implemented
  • Consider implications of “information-only” comments
  • Respond to findings (if necessary) to document how the issue has been resolved
  • Prepare corrective action plan if known findings still exist

• Above all – Make every effort to **BE AVAILABLE** for the auditors during final fieldwork
Ensure you Meet the Filing Deadline

• Post audit work:
  • Complete an exit interview with your auditors to go over the following:
    • Any finding or other issues identified throughout the audit
    • Review remaining open items and identify a timeline for completion of these open items
    • Review final audit adjustments
    • Discuss the type of audit report to be issued if not “Unmodified”
    • Set a date for draft meeting
  • Prepare the MD&A and provide to auditor as soon as possible
  • Complete auditee portion of the data collection form
Year End Goals

• Reduce disruption to your staff and to your District’s day-to-day operations

• Audit completed more efficiently (November 1\textsuperscript{st} deadline)

• Keep cost down

• Gain a greater understanding of your internal control environment and financial health
Thank you and GOOD LUCK!

Jeffrey L. Straus
Principal
517-886-9540
jstraus@manercpa.com
Budgeting – You’ve Got This!

Presented June 5, 2019
By: Kim Lindsay, CPA, CGMA
Discussion Areas

• Budget Requirements
• Treatment of Special Items
• MDE Interests
• Treasury Interests
• Auditor / Audit Report Perspectives
Budget Requirements

• Must prepare for the General Fund and any Special Revenue Fund
  – Food Service
  – New Funds (Fund 28 Public Purpose Trust Fund and Fund 29 Student/School Activity Fund)
• Prepare in accordance with GAAP and the Uniform Chart of Accounts
• What about Sinking Funds and CP Funds?
Budget Requirements

• Must follow guidance for Minimum Levels of Appropriations – Examples in Bulletin 1022

<table>
<thead>
<tr>
<th>Revenues</th>
<th>Description</th>
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</thead>
<tbody>
<tr>
<td>1xx</td>
<td>Local</td>
</tr>
<tr>
<td>2xx</td>
<td>Other Political Subdivisions</td>
</tr>
<tr>
<td>3xx</td>
<td>State</td>
</tr>
<tr>
<td>4xx</td>
<td>Federal</td>
</tr>
<tr>
<td>5xx-6xx</td>
<td>Other Financing Sources</td>
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## Budget Requirements

<table>
<thead>
<tr>
<th>Expenditures</th>
<th>Description</th>
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</thead>
<tbody>
<tr>
<td>1xx</td>
<td>Instruction</td>
</tr>
<tr>
<td>11x</td>
<td>Basic Programs</td>
</tr>
<tr>
<td>12x</td>
<td>Added Needs</td>
</tr>
<tr>
<td>13x</td>
<td>Adult &amp; Continuing Education</td>
</tr>
<tr>
<td>2xx</td>
<td>Support Services</td>
</tr>
<tr>
<td>21x</td>
<td>Pupil</td>
</tr>
<tr>
<td>22x</td>
<td>Instructional Staff</td>
</tr>
<tr>
<td>23x</td>
<td>General Administration</td>
</tr>
<tr>
<td>24x</td>
<td>School Administration</td>
</tr>
<tr>
<td>25x</td>
<td>Business Services</td>
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## Budget Requirements

<table>
<thead>
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<th>Code</th>
<th>Description</th>
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</thead>
<tbody>
<tr>
<td>26x</td>
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<tr>
<td>27x</td>
<td>Transportation</td>
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<tr>
<td>28x</td>
<td>Central</td>
</tr>
<tr>
<td>29x</td>
<td>Other Support Services</td>
</tr>
<tr>
<td>3xx</td>
<td>Community Services</td>
</tr>
<tr>
<td>4xx-6xx</td>
<td>Other Financing Uses</td>
</tr>
</tbody>
</table>
Budget Requirements

• Districts may adopt their budgets at a higher level of detail.
  – Key Point: The level of detail the board adopts in the general appropriation act determines the minimum level of detail the administration must monitor for compliance with that appropriation.
Budget Requirements

• Deficit Budgets – prohibited by both the Uniform Budgeting & Accounting Act and the Revised School Code
  – Total estimated expenditures, including accrued deficits, shall not exceed total revenues, including any available unappropriated surplus
• Amend Budgets – before expenditures actually exceed their current appropriation
Budget Requirements

- Transparency Reporting
  - Post to website within 15 days of board adoption
  - Post the General Appropriation Resolutions, or
  - The budgets with the prescribed minimum level of detail along with a notation of the date those budgets were approved by the board
Special Items

- Fund Balance Items
  - Committed and Assigned Fund Balance actions can be noted and approved as part of the budget adoption resolutions
  - Committed Fund Balance requires formal action and the budget adoption appropriation act can provide evidence of that formal action
  - Audit report – if the subsequent year’s budget adoption includes the use of fund balance – that use satisfies the criteria to be classified as an assignment of fund balance
MDE Budget Interests

• What is MDE concerned with?
  – Reporting of material violations of the Uniform Budgeting & Accounting Act, such as:
    • General Fund Deficits
    • Over-expending the authorized budget. MDE is analyzing the General Fund only, and at the total revenues, expenditures and financing sources (uses) levels, rather than at the line item level
    • If budgeted revenues are not met but expenditures are reduced so as to not use fund balance, there is no MDE follow-up
MDE Budget Interests

– Reasonable procedures are in use by the district to detect violations of the UB&AA
  • Is the District able to detect when they are going to be in trouble and adjusting expenditures timely

– Deficit Districts – required to submit a Deficit Elimination Plan (DEP) to the Department 30 days after the board adopts the budget or 30 days after the state school aid budget is enacted, whichever is later.
MDE Budget Interests

– Communications
  • MDE will contact districts and inquire about district plans and procedures to correct violations
  • Communications from MDE go to District officials and the board
  • Corrective action plans will have to be submitted with audits that contain findings related to this subject matter
  • MDE is required to notify the Attorney General of violations in audits of districts that have an “absence of reasonable procedures to detect material UB&AA violations”
Treasury Budget Interests

• What is Treasury (OSRFA) concerned with?
  – Early Warning Identification
    • Potential fiscal stress
      – Schools trending toward deficit
      – Provide assistance to avoid incurring fiscal stress
    • Fund balance deficits
      – Develop and monitor DEP’s
      – Partner with the district to resolve the deficit
  • Financial emergencies
    – Develop and monitor long-term financial plan
    – Act to resolve financial emergency
Treasury Budget Interests

• Contact Triggers
  – Budget Assumptions - reporting to CEPI by July 7, 2019
    • General Fund balance less than 5% of revenue for the 2016-17 or 2017-18 school years
    • OSRFA will notify districts and PSAs that are required to submit budget assumptions
Treasury Budget Interests

– Budget Reviews
  • Treasury reviews budgets on roughly a tri-annual basis
  • Districts are contacted for a corrective action plan (CAP) if they are budgeting to use more than 50% of their fund balance

– Projection Model
  • Districts are contacted around December for a CAP if they project a deficit in the current and following 2 FY’s
  • Projection model is updated with FID data due 11-1 and the fall enrollment count used in the December state aid payment
Auditor & Reporting Perspectives

• UB&AA compliance is a law/regulation that has a material effect on the financial statements
• Material violations will appear in the Yellow Book report & Schedule of Findings
  – Probably as a material noncompliance and a material control weakness
  – Corrective action plan is required
Auditor & Reporting Perspectives

- RSI - Budget to Actual Comparisons are required for the General Fund and all major special revenue funds
  - Reporting will be at the level of the board approved budget
  - Instances of expenditures beyond appropriations in the final budget vs. actual result will be disclosed in the Budget Stewardship footnote or in a footnote to RSI

- MD&A discussion of significant variances
Auditor & Reporting Perspectives

• The budget to actual comparison is the one statement that the public and board is sensitive to
• Wide variances tend to draw questions from the board, the public and bargaining units
• Communication of assumptions and budgeting philosophy, early and often, is necessary
Auditor & Reporting Perspectives

• Regular monitoring and reporting of budget vs. actual results is imperative
• Keep your notes on major changes for incorporation in your MD&A
• A well-defined budget calendar is helpful
  – Beginning of timeline
  – Budget hearing and adoptions
  – Amending
  – Reporting
Auditor & Reporting Perspectives

• On the Horizon
  – The governmental reporting model is being reviewed
  – Part of that review is where and what budgetary comparison info will be required and what will require discussion or analysis
Questions

??

Kim Lindsay, CPA, Principal
616-975-2822
Kim.Lindsay@Rehmann.com
Bonded Construction Funds and Sinking Funds – What do auditors evaluate?

Tiffany Stacey, CPA
June 5, 2019
Bond Construction and Sinking Funds – General items

Two code sections:
- Section 1351(a) – Bond Funds
- Section 1212 – Sinking Funds

District Personnel – do you know the rules?
- Operations personnel
- Business office personnel
- District oversight
- Review Treasury’s Bond and Sinking Fund audit guide
Bond Construction and Sinking Funds – General items

Is Procurement policy being followed?
• Are bids being handled properly (advertised, public)
• Bid thresholds being adhered to
• How does District monitor?

Year End Accounting – double check!
• Is payable cut off posted properly. *(sometimes we see mid month to mid month* bills...need to look close and verify all work done prior to year end
• Retainage is work performed, but not billed for yet. Payable at year end?
Bond Construction and Sinking Funds – General items

Implications of Compliance Issues
• Auditors required to disclose in finding section of single audit report
• Compliance with Laws and Regulations – finding and footnote disclosure
• Likely internal control issue as well (*lack of oversight*)
• Requirement to report to Board of Education
• Sinking Fund implications – harsh! Ability to have sinking fund/levy tax could be permanently impacted
Bond Fund Testing

Auditing Under Section 1351a (Bond Funds)

• Auditors guide - Treasury’s Bond and Sinking Fund Audit Guide
• Key tests: allowable cost, procurement, allowable investments
• Key issues:
  ▪ Are controls in place in key test areas?
  ▪ Are costs consistent with law, bond ordinance, Treasury qualification, if qualified?
  ▪ Is cut off accurate?
  ▪ Did purchase decisions follow school code and district policy?
  ▪ Were bid requirements followed?
Bond Fund Testing

Investments
• Accounting for investments
  ▪ Cash and Cash equivalents
  ▪ Fair value investments

• Is there accrued interest receivable at year end?

• Verify investments are allowable

• Arbitrage - it’s back...
Bond Fund Testing

Arbitrage -

• Arbitrage Rate and Yield Restriction
  ▪ Applies to all tax-exempt borrowings
  ▪ Legal restriction as to how much investment earnings can be made from tax exempt borrowings
  ▪ Low bond rates + rising interest rates = potential arbitrage rebate
  ▪ Complex calculation based on timing of proceeds and use of proceeds.
  ▪ Annual calculation should be performed to monitor if any rebate is due to Internal Revenue Service. (if rebate due...means District maximized your earnings!)
  ▪ Auditors will be asking for arbitrage calculation to verify

Don’t let this catch you by surprise!
Bond Fund - Reporting

Reporting to Treasury - Options:
Compliance can be tested annually or all at once at the end of construction

1. **Annual testing**: auditing the expenditures on an annual basis. In this case, the final treasury submittal happens upon substantial completion.
   - District must obtain substantial completion
   - Auditing of expenditures must occur w/in 120 days of substantial completion, 150 days to submit the report
     - If substantial completion happens in middle of fiscal year (as example) District should have auditor perform testing w/in the 120 day rule AND District should notify treasury the transmittal will be submitted once the current year’s audit report is issued.
   - Most common
Bond Fund - Reporting

Reporting to Treasury - Options:

2. **At end of all construction**: auditing the expenditures on an annual basis.
   - Separate summary report issued by auditor detailing fund activity over the course of the entire bond project
   - District must obtain substantial completion
   - Auditing of expenditures must occur w/in 120 days of substantial completion, 150 days to submit the report

Both methods detailed in MDT - Bulletin #7
Sinking Fund

Voter approved tax levy, proceeds restricted to:

- Authorized levy pre 3/29/17 = Buy land to build on, construct or repair buildings (not maintenance!), technology wiring/infrastructure

Law amended (Sec 1212) – Effective 3/29/17

- Prospective application AFTER effective date
  - Old millage, old law / New millage, new law
- Can update sinking fund allowability only via a NEW VOTE
New Sinking Funds authorized can be used for purchases under old rules plus....

- School security improvements
  - Includes capital improvement (cameras, lighting, locks, doors...)
  - Provides also for mobile telephone applications to provide ability for personnel to communicate on site and connect to 911
  - Does not include operations or personnel costs
- Acquisition or upgrading of instructional technology (same rules under Sec 1351a)
- Tax cannot exceed 3 mills (was 5 mills)
- Levy cannot exceed 10 years (was 20 years)

Auditors will be testing in accordance with timing of District Sinking Fund
Sinking Fund

Audit Requirements - Section 1212

• District required to have an annual compliance audit
  ▪ Are controls in place in key test areas?
  ▪ Are costs consistent with law, ballot language?
  ▪ Is cut-off accurate (a lot of work in June, recorded?)
  ▪ Did purchase decisions follow school code and district policy?
  ▪ Were fund investments allowed?
  ▪ IF UNALLOWABLE ITEMS IDENTIFIED - IMPACTS ABILITY TO LEVY TAX IN FUTURE!
Bond Fund/Sinking Fund - Resources

• MI Department of Treasury – Bulletin 7
• School Code
  ▪ Section 1212
  ▪ Section 1351(a)
• Ballot Language
• MDE Audit Manual
• District’s legal counsel
  ▪ Should be helping them when something is “gray”
• MSBO website (of course!)
MSBO Business Manager/CPA Workshop

Understanding and Applying GASB 84

Presented By

- Eric Formberg, Plante Moran
- Kari Shay, Thrun Law
- James Crowley, Miller Canfield
GASB 84 Approach

Evaluating Fiduciary Activities

1. What is the organization/account/activity?

2. Where does it fit? (apply the criteria)

3. What needs to be put in place?

4. What issues do we need to resolve?
GASB 84
Overview
Overview – GASB 84

**Scope:**
- Establishes criteria for identifying what is considered a fiduciary activity
- Guidance on reporting fiduciary activities

**Timing:**
- Issued January 2017
- Effective for reporting periods beginning after 12/15/2018
  - Impacts your books and records starting – 7/1/19
  - Will be first reported and audited year ended – 6/30/20
- 1022 guidance, Issued March 2019
Four fund types under GASB 84

**Pension and OPEB trust funds**
- Report pension and OPEB plan activity administered through trusts under GASB 67 or GASB 74
- Other employee benefit plans where resources held in trust, and contributions are irrevocable

**Investment trust funds**
- Assets held in trust
- External portion of investment pools

**Private-purpose trust funds**
- Fiduciary activities held in trust that are NOT required to be reported as pension, other employee benefit or investment funds

**Custodial funds**
- Report fiduciary activities not held in trust
- Report external portion of investment pool not held in trust in separate “external investment pool fund” under custodial funds
Fiduciary activities – What counts?

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

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

Own-source revenue
• Defined as revenue generated by the School District itself. Includes interest earnings, property taxes, state aid, federal grants, etc.

Administrative or direct financial involvement
• A recipient school district has financial involvement if, for example, it:
  ▪ finances some direct program costs because of a grantor-imposed matching requirement
  ▪ is liable for disallowed costs

Administrative involvement to be discussed later!
GASB 84 - Student Activities and Private Purpose Trust Funds

“Quick” Conclusions – based on the “test”

• Student Activities – Can be custodial, but many activities likely treated as a Special Revenue Fund in most districts

• Private Purpose Trust Fund – likely treated similar to student activities, unless truly in a trusted plan

• Boosters – likely a good opportunity to move them out on their own

• Other accounts or fundraising– answers are not simple, require a strategy, see legal discussion!

1022 guidance allows options but generally points to these conclusions
GASB 84
Current vs. Future Accounting
Current vs Future accounting....

2019 Reporting

Fiduciary Funds
Statement of Fiduciary Assets and Liabilities
June 30, 2018

<table>
<thead>
<tr>
<th>Agency Funds</th>
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<tbody>
<tr>
<td>Assets</td>
<td>$ 573,837</td>
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<tr>
<td>Liabilities</td>
<td>$ 573,837</td>
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</table>

2020 Reporting

General Fund  Special Revenue Fund  Fiduciary Funds

Custodial  Private Purpose Trust

Must apply the criteria – Judgement!
Reporting Implications
Financial statement reporting – Fiduciary Funds

Required financial statements under GASB 84

<table>
<thead>
<tr>
<th>Private purpose trust funds</th>
<th>Custodial funds</th>
</tr>
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<tbody>
<tr>
<td><strong>Statement of fiduciary net position</strong></td>
<td><strong>Statement of changes in fiduciary net position</strong></td>
</tr>
<tr>
<td>- Assets</td>
<td>- Additions</td>
</tr>
<tr>
<td>- Deferred outflows</td>
<td>- Deductions</td>
</tr>
<tr>
<td>- Liabilities</td>
<td>-</td>
</tr>
<tr>
<td>- Deferred inflows</td>
<td>-</td>
</tr>
<tr>
<td>- Fiduciary net position</td>
<td>-</td>
</tr>
<tr>
<td>- Assets</td>
<td>- Additions</td>
</tr>
<tr>
<td>- Deferred outflows</td>
<td>- Deductions</td>
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<tr>
<td>- Liabilities</td>
<td>-</td>
</tr>
<tr>
<td>- Deferred inflows</td>
<td>-</td>
</tr>
<tr>
<td>- Fiduciary net position</td>
<td>-</td>
</tr>
</tbody>
</table>
Statement of Changes in Fiduciary Net Position

• Changes in Fiduciary Net Position
  ▪ Additions:
    • Presented by source (likely just one or two categories)
    • Separate display of investment earnings, investment costs, and net investment earnings is required (if any)
  ▪ Deductions:
    • Presented by type (likely one or two categories)
    • Separate display of administrative costs is required (if any)
Governmental Funds (GF & SRFs)

- **Restatement of Fund Balance** — Any activity moving from fiduciary to a Governmental Fund will require a restatement of beginning fund balance (July 1, 2019) for the 2020 financial statements.

- **Budget implications**
  - General Fund *(depending on how many move to GF, if any, may not be significant)*
  - Special Revenue Fund (NEW fund therefore NEW budget required, “should be” with 2019/20 original budget adoption)

- **Accounting Treatment**
  - 1022 accounting guidance for fiduciary and special revenue
  - See Chris May presentation
Applying the Standard
GASB 84: Legal Considerations for Public Schools

**CURRENT AGENCY FUNDS**
Activity funds maintained in school district’s bank account?
- **N**

**FIDUCIARY ACTIVITY**
Private Purpose Trust Fund or Custodial Fund.
- **YES ON ALL**

**GOVERNMENTAL ACTIVITY**
General or Special Revenue Fund.
- **Y**

**FIDUCIARY v. GOVERNMENTAL ACTIVITY CRITERIA**
1. Funds not derived from school district’s source revenues?
   - **YES**  [ ]  **NO**  [ ]  **N/A**  [ ]
2. Funds benefit individuals and no “administrative involvement” by the school district in the activity?
   - **YES**  [ ]  **NO**  [ ]  **N/A**  [ ]
3. Funds benefit outside organizations not part of school district?
   - **YES**  [ ]  **NO**  [ ]  **N/A**  [ ]
4. If funds are in a trust, school district is not a beneficiary?
   - **YES**  [ ]  **NO**  [ ]  **N/A**  [ ]

**PUBLIC FUNDS BUT...**
Funds may be used for activity’s purpose as long as it has an "EDUCATIONAL NEXUS" to the operation of the school district.
- **Y**

**PUBLIC FUNDS**
Funds are subject to all legal restrictions applicable to the General Fund.
- **N/A**
Legal Issues in the determination of a Fiduciary or Governmental Activity
Custodial Funds Defined

In order to be deemed a fiduciary fund a Custodial Fund must meet all of the following four criteria:

**Source:**
1. Fund assets may not include district or “own source funds”, which for school districts includes state and federal aid, local tax revenue, etc. (i.e. *no co-mingling district/public and private funds*)

**Control:**
2. Assets must be controlled by the school district (e.g. school district’s bank account)
3. Assets must be for the benefit of individuals or entities (i.e. not the school district)
4. District cannot have administrative involvement with the assets
Custodial Funds (cont.)

What is “Administrative Involvement”?

A. District monitors compliance with the requirements of the activity that are established by the government

B. District determines eligible expenditures that are established by the government

C. District has the ability to exercise discretion over how assets are allocated

D. Final GASB Implementation Guidance is expected to be released in June 2019 and may contain additional examples
Accounting or Legal?

GASB statements focus on accounting procedures and financial reporting.

GASB releases 3 to 4 statements annually which are implemented with limited legal advice.

GASB 84 differs in that it may have a significant impact on school operations of co-curricular and extra-curricular programs.

Effective implementation of GASB 84 should consider each of the areas shown in the diagram.

There is no “one size fits all” implementation plan from a legal standpoint.

“Practical” considerations relate to the unique aspects of each district, its programs, current policy, parent support groups, etc.
Permissible Uses of Funds
GASB 84: Permissible Expenditure of Public Funds

Permissible Expenditure Analysis: 3 Questions

1. What **powers** does the school district have to expend public funds?

2. What are the specific **source and use limitations** or specific **prohibitions** on expenditures?

3. What is provided for in the school board-approved **budget**?
GASB 84: General Powers: Permissible Expenditures

“Educational Nexus”

Unless some specific limitation or prohibition has been placed on expenditures from the General Fund, so long as there is a reasonable “educational nexus” between the expenditure and the performance of any function related to the operation of a school district in the interests of public elementary and/or secondary education in the school district, the expenditure from the General Fund is allowed.
GASB 84: Specific Limitations or Prohibitions

- Source limitations
- Use limitations
- Section 1814 of the School Code

(1) Except as otherwise provided in subsection (2), a person shall not use school district, … funds or other public funds under the control of a school district, … for purchasing alcoholic beverages, jewelry, gifts, fees for golf, or any item the purchase or possession of which is illegal.

(5) As used in this section, "public funds" means funds generated from taxes levied under this act, state appropriations of state or federal funds, or payments to a school district, … for services, but does not include voluntary contributions made for a specific purpose by a … board member; … employee; another individual; or a private entity. [Emphasis added]

- Scholarships?
GASB 84: Permissible Expenditure of Public Funds

**CURRENT AGENCY FUNDS**

- **FIDUCIARY ACTIVITY**
  - Private Purpose Trust Fund or Custodial Fund.
  - **Y**

- **GOVERNMENTAL ACTIVITY**
  - General or Special Revenue Fund.
  - **Y**

- **FIDUCIARY v. GOVERNMENTAL ACTIVITY CRITERIA**
  - **Y**

- **NOT PUBLIC FUNDS**
  - Funds may be used for the activity’s stated purpose with no legal restrictions.

- **PUBLIC FUNDS BUT...**
  - Funds may be used for activity’s purpose as long as it has an “EDUCATIONAL NEXUS” to the operation of the school district.

- **PUBLIC FUNDS**
  - Funds are subject to all legal restrictions applicable to the General Fund.

- **Exception to the definition of “Public Funds” Voluntary contribution for specific purpose? (MCL § 380.1814).**
  - **Y**
  - **N**
Updating Board Policies and Policy Implications
Legal Considerations
Board Policy

1. GASB 84 will require modification of several Board Policies, including the elimination of policies entitled “Student Activity Funds” and modification of Board Policies and internal procedures for gifts and donations and parent support groups.

2. Many districts currently have multiple board policies that address co-curricular and extra-curricular activities.

3. This includes policies specific to “Student Activity Funds”, parent support groups and separate policies for “Booster Clubs and PTOs” (which is simply a type of parent support group).

4. Policies related to parent support groups should drastically reduce the level of current control over outside organizations, such as Booster Clubs, that currently exist.

5. The required control (e.g. district review of corporate documents, bylaws, requirements that Bylaws contain certain provisions, etc) may create liability for districts.

6. If not implemented properly in new or modified Board Policy, GASB 84 may also create liability issues through increased control.
Practical Issues and Examples
Practical Issues and Examples

Q
If an activity gets funds from school operations, can it be a fiduciary activity/be a custodial fund?

A
Using the criteria, it fails the source of revenue test and cannot be a fiduciary fund 😞
Practical Issues and Examples

Q
The High School parking fees are maintained in a “student activity” account, can we still do that?

A
In reality these are local source revenues that may be directed for a specific purpose. They are not fiduciary funds and should already be in a governmental fund.
Practical Issues and Examples

Q
How do I know if the district has administrative involvement?

A
Judgement! The issue here is more about the extent and type of involvement.

Range of involvement can be from processing transactions (likely no administrative involvement) to making all decisions for the group (substantial involvement)
Practical Issues and Examples

Q
Fundraising is a normal activity at the building level. Can we still do that? How should the “activity” be treated?

A
Nothing in GASB 84 prevents fundraising

Where does it go – apply the criteria, if its part of an student activity then the funds go with the activity.

If it benefits the District then likely a governmental fund
Practical Issues and Examples

Q
Applied the criteria and many activities are governmental activities, so we chose to use Fund 29.
Do I have to budget that fund?

A
All Special Revenue funds are required to be budgeted.
GASB 84 is effective 7.1.19!

Suggest to budget lines to start
1. Local revenue
2. Support service
Consider budgeting revenue = expenditures to start
Practical Issues and Examples

Q

We put our student activities in Fund 29.
How does that impact the purchasing process?

A

Fund 29 is a governmental fund. The district’s purchasing policy would generally cover governmental fund purchases. Revisit purchasing policy/procedures if reasonable adjustments are needed.
Practical Issues and Examples

Q
We have funds donated for scholarships. What happens to those?

A
Are they “trusted”? If so likely private purpose trust fund
Not trusted? Apply the criteria.
Maybe get out of the business, ask an attorney if you can transfer it out of district and be managed externally
Practical Issues and Examples

Q
We collect funds for “stuff” throughout the year. Can this be custodial?

A
Apply the criteria. Likely a voluntary contribution for a specific purpose.
As to if it is “allowable” consider implications of 1814(5).
Practical Issues and Examples

Q
We have PTO’s in our student activities, is that okay?

A
Key question – is it a good time to “empower” them to be on their own?
The SD can provide custodial services when you apply the criteria.
Likely little administrative involvement
Practical Issues and Examples

Q
Do I have to analyze all the activity accounts and segregate them between school district operating activity, student activity with administrative involvement and custodial?

A
Technical answer – Yes
Practical Answer – Judgement!
Practical Issues and Examples

Q
I have the accounting already set up for student activities, and it works well. Do I need to change everything?

A
Short answer is no!
Longer answer is, you need to be able to get the activities into the accounting structure by year end for financial statement and FID purposes.
How you manage the activity is up to the district, just as it is now.
Action Items
Action items –

- Identify population of activities that require analysis under GASB 84
- Analyze activities under GASB 84 guidance; make a determination as to whether or not they are fiduciary funds:
  - Identify items currently in a fiduciary fund that no longer will meet the definition of fiduciary
  - Identify items NOT currently in fiduciary funds that will meet the definition going forward
- Identify activities that should be outside the district and work to move them out
- Identify and implement changes in the financial system - a lot or a little?
- Communicate changes (budget, policy, procedure, accounting)

KEY QUESTION – what do you really need to change in daily operations?
Thank You ..... For Being Great Fiduciaries!