



Understand the Implications of School District Audits and Financial Statements

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Today's Presenters



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Opening Remarks



Understand the Audit Process

Audit Phases

- Planning Phase
- Interim Fieldwork
- Year End Fieldwork
- Wrap Up Phase





Business Office Requirements

Being Ready for the Audit

- Settle on fieldwork dates and milestones
- Plan call with business office and auditors ahead of year-end to discuss significant transactions
- Communication with audit team is crucial
- Determine points of contact for audit requests



Business Office Requirements

How to Best Prepare

- Paper vs. digital copies - ease of access
- Be aware of new accounting standards
- Alert audit team of pending items or adjustments
- High level overview of fund's Balance Sheet



Internal Controls

Internal Control Considerations

- Any findings from last year? Has the district addressed them?
- Auditors are required to assess your internal controls and determine if any significant deficiencies or material weaknesses exist (findings).
- Findings are required to be reported in the audit deliverables.
- Evaluate your internal controls in advance to help avoid findings.
- Reminder – auditor proposed adjustments may be indicative of a finding. Another reason to have your books and records 100% ready before the audit starts!



Audit Preparation - Balance Sheet Reconciliations

Importance of Reconciliations

- All significant balance sheet accounts – expect to provide one for all accruals and key balances
- Reconcile beyond just GL detail
- Deferred revenue and receivables – SEFA



Audit Preparation - Balance Sheet Reconciliations

Typical K12 Accruals to Consider at June 30

- Payroll Accruals
 - 12-month EE's – For all work performed through 6/30, but not yet paid
 - 10-month EE's – Depending on contract language, generally expect that for 24/26 pay elections the pay periods after 6/30 will be accrued for at 6/30
 - Health Benefits – Consider need for accrual of July/August benefits for 10-month employees
 - MPSERS – Accrual at June 30 should include
 - Amounts not yet remitted to ORS for all pay periods through June 30
 - 147c(1) and (2) - June ORS invoice, if not paid by June 30. Include also the July/August expected amounts
 - MPSERS accrual should also be recorded on any balance of contract payroll accrual reported at June 30
 - Retirements – Consider if any payout of PTO/FTO should be accrued for in the General Fund at 6/30. Contract language may dictate as the fund liability is driven by "when" the amount is owed to the employee.



Audit Preparation - Balance Sheet Reconciliations

Typical K12 Accruals to Consider at June 30

- State Aid Receivable – For the July and August payments to be received
- Accounts payable – Consideration of how long to keep the period open for before closing the books
- Unavailable revenue – For any receivables not collected within generally 60 days of yearend, the revenue should be reversed and deferred
- Deferred revenue – Consider categorical grants and other cash resources received before you have actually "earned" it. Should any amounts be reported as deferred revenue?



Audit Preparation - Schedule of Expenditures of Federal Awards (SEFA)

High-Level Checks for SEFA

- Start with prior year audit report version
- Beginning accounts receivable should match prior year ending balance from the prior year SEFA
- Total federal expenditures should match federal revenues (reconciling items?)
- Do NOT hard enter ending accounts receivable
- Avoid inputting "pennies" in the SEFA as this ends up creating footing errors in your final report
- Proper reporting of expenditures within grant codes
- Any amounts passed through to sub-recipients? Be sure to report this for each grant in the SEFA.
- Pull down resources from state and ISD sources



Audit Preparation – Fixed Assets

Ensuring Fixed Assets are Ready

- Start early, spend ample time on fixed assets
- Check figure: additions should not exceed capital outlay
- Track CIP (Construction in Progress) within roll forward
- Consider adjustments for sale of assets/deletions



Audit Preparation – Fixed Assets

Close out Capital Project Activity

- Sinking Fund and Bond Fund testing – implement process to capture any necessary accruals at year end
- Accrue for invoices not yet received if the work has been performed
- Accrue for retainage
- Get capital outlay in a good spot before determining amounts to capitalize.



Bond Compliance Reporting

Bond Compliance Reporting Requirements - Bond Funded Capital Projects Funds

- Reminder that each year OR at the end of a bond project, an auditor must test your expenditures for compliance
- At the end of the bond project (substantially complete) bond close out reports are required to be submitted to the MI Dept. Of Treasury.
- Use the MI Dept of Treasury, Bulletin 7 (Public Act 451 of 1976, Revised School Code) as a resource to understand the audit and reporting requirements.



Audit Preparation - GASB 54 Classifications

Understanding GASB 54 Requirements

- Nonspendable – (e.g. Inventory, Prepaid Expenses)
- Restricted – legally restricted type funds
 - Bonds/Sinking Funds
 - Debt Service
- Committed – made by board via resolution
 - Must be committed by June 30
- Assigned - Made by authorized personnel with board authority for specific uses
 - can be done after year-end
- Unassigned
 - Deficits in other funds would offset the unassigned general fund balance



Key Items to Review in the Financial Statements

Focus on MD&A, Fund Balance, and Budgetary Schedules

- MD&A - provide management commentary on financial results and performance
- Monitoring fund balance and early warning thresholds
- Consistency with FID (Financial Information Database) submission
- Budgetary schedules should align with detail and board resolutions
 - Consistency with the face of the financial statements



Takeaways

Being Prepared for a Smooth Audit

- Effective communication with audit team is crucial
- Adequate preparation of fixed assets, balance sheet reconciliations, and SEFA
- Understanding GASB 54 classifications and other considerations
- Being proactive and organized can lead to a successful audit process



Top 3 Ways to Prevent Delayed Issuance of Financial Statements

- **Communicate**
 - To avoid surprises, communicate with auditors, ask questions throughout the year, bring up items that are new to the district
- **Prepare**
 - Make sure that your trial balances have been reviewed and accruals have been reconciled
 - Ensure that the appropriate resources have availability during the week of fieldwork
- **Provide**
 - Push to have all reconciliations and requests to the auditors prior to fieldwork starting



Questions and Discussion



Thank You!

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