

# Fund Level & District Wide Financial Statements

## Notes to the Financial Statements

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# Presentation Objectives

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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

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- 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

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- 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 (may or may not be applicable for your district)
- Note 6 – Restricted Assets
- Note 7 – Unavailable/Unearned Revenue
- Note 8 – Capital Assets
- Note 9 – Interfund Receivables, Payables, and Transfers
- Note 10 – Long-term Debt
- Note 11 – Leases (may or may not be applicable for your district)
- Note 12 – Risk Management
- Note 13 – Michigan Public School Employees’ Retirement System (MPSERS)
- Note 14 – Tax Abatements
- Note 15 – Contingent Liabilities (may or may not be applicable for your district)

# Where to go for Guidance

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

# GASB 54, Fund Balance and Fund Type

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- 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

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- Five Fund Balance Components:
  - Nonspendable fund balance
    - Prepays/Inventory
  - Restricted fund balance
    - Debt Service, capital projects, food service
  - Committed fund balance
    - Student Activities
  - Assigned fund balance
    - Subsequent budget shortfall, accrued sick time
  - Unassigned fund balance

# GASB 54 – Fund Definitions

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- **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

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- 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

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- 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

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- *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

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- GASB 68 – pension liability (effective for the June 30, 2015 year-end)
- GASB 75 – other post employment benefit (healthcare) liability/asset (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

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- Pension and OPEB Liabilities for 6/30 – Will be allocated based on the MSPERS Plan year-end of the previous 9/30 period.
- 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

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- 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

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- 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

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- 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?

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- 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

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- 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

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- 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

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- 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

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- 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

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- 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

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- 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

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- 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

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- 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 87 - Overview

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- 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

# GASB 96 - Overview

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- GASB 87 equivalent, but for subscription-based IT agreements (SBITAs)
- SBITA – a contract that conveys control of the right to use another party’s IT software alone or in combination with tangible assets (IT hardware)
- Requires recognition of right to use assets and liabilities on Full Accrual financial statements
  - Accounting is similar to GASB 87, if the term exceeds 12 months
  - Similar to GASB 87, includes a ‘short-term exception’, but make sure to consider actual terms and conditions and extension/renewal details
- EXCLUDES – Contracts that are for a service, NOT use of software
- Effective for June 30, 2023 fiscal year

# GASB 101 - Overview

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- Effective June 30, 2025
- Increase comparability in reporting and disclosing compensated absences amongst governmental entities
- Full Accrual impact only – No change to Fund accounting
- Expectation: Liability likely to increase
- Disclosure Impacts:
  - Continue to report in long-term liability disclosure including beginning balance, change in liability, and ending balance
    - BUT – no longer required to disclose the gross increases/decreases, net change is ok.
  - No longer required to disclose which fund will be used to liquidate balances

# GASB 102 - Overview

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- Effective June 30, 2025
- Disclosure impact only!
- Enhance transparency for users regarding vulnerabilities to events occurring within 12 months of the financial statement date
- Disclosure is required when a concentration or constraint makes the entity vulnerable to a *substantial* impact
- Concentration = lack of diversity in resources
- Constraints = limitations on actions

# GASB 103 - Overview

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- Effective for June 30, 2026 fiscal year end
- Enhance the governmental financial reporting model to improve clarity, consistency, and comparability
- This standard focuses on:
  - Management's Discussion and Analysis (MD&A)
  - Budgetary comparison information
  - Unusual or infrequent items
  - Proprietary fund statement presentation
  - Major component unit presentation
  - Financial trends in statistical section

# GASB 103 - MD&A

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- Refines MD&A structure into five sections
- Emphasizes analysis of reasons for changes (why did amounts change significantly)
- Avoids unnecessary duplication
- Revises proprietary fund condensed presentation to match other changes required by this Statement
- Moves budget analysis to the notes to the RSI
- Includes intangible assets, lease assets/liabilities, and subscription assets/liabilities in capital asset and long-term debt discussion

# GASB 103 (Cont.)

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- **Budgetary Comparison Information**
  - Must be presented as RSI
  - Requires two variance columns:
    - Difference between original and final budget
    - Difference between final budget and actual amounts
  - Notes to RSI must explain significant variances
- **Unusual or Infrequent Items**
  - Special or extraordinary items concept removed
  - Presented individually as the last items on the flows statement before the net change
  - Each unusual or infrequent item should be presented separately

# GASB 103 (Cont.)

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- **Proprietary Fund Statement Presentation**
  - Modifies the presentation of the proprietary fund statement of revenues, expenses, and changes in net position
- **Major Discretely Presented Component Units**
  - Condensed financial statements in the footnotes is no longer a presentation option
  - Preferred presentation is separate columns in the statement of net position and statement of activities
- **Statistical Section**
  - Most likely not applicable to K-12 districts
  - Financial trends must show revenues by major source
  - Distinguish between operating, noncapital subsidies, and other nonoperating

# GASB 104 - Overview

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- Effective June 30, 2026
- Disclosure impact only!
- Improve transparency for users of government financial statements regarding specific, newer types of capital assets
- Requires separate disclosure of certain capital assets within the capital asset rollforward schedule
  - **Right-to-use lease assets** – disclose major class(es) of underlying asset
  - **Subscription assets** – disclose total of subscription assets
  - **Intangible right-to-use assets** – disclose major class(es) of underlying assets
- Introduces "held for sale" criteria and disclosure requirements

# GASB 104 - Capital Assets Held for Sale

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- Factors to consider when evaluating whether it's probable that the sale will be finalized within one year of the financial statement date include, but are not limited to the following:
  - Market conditions for selling that type of asset
  - Whether the asset is available for immediate sale in its present condition
  - Whether an active program to locate a buyer has been initiated, which may include the asset being put out for bid
  - Market conditions for selling that type of asset
  - Regulatory approvals needed to sell the asset
- This does NOT change how you measure capital assets held for sale!

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

# Summary of Discussion

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

# Threshold Changes

Area	Current UG	2024 Revised UG
Single Audit Threshold/ Type A Threshold	\$750,000	\$1,000,000
Micro-purchases	\$10,000	\$15,000
Equipment and Supplies	\$5,000	\$10,000
Proceeds	\$500 or 10% of proceeds from sale of equipment or supplies	\$1,000
Subawards based on fixed amounts (with prior written approval)	Simplified Acquisition Threshold	Up to \$500,000
Modified Total Direct Cost (MTDC)	Up to \$25,000 of each subaward	Up to \$50,000 of each subaward
de minimis rate applied to MTDC	10%	Up to 15%

# Report Format and Content

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

# Report Letters

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- 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)

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

# Notes to SEFA

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- Standard Footnotes
  - Basis of Presentation
  - Significant Accounting Policies
  - Noncash Assistance
  - Grant Auditor's Report
- Adjustments Footnote
  - The purpose of amounts in the Adjustments/Transfer column of SEFA must be disclosed

# Schedule of Findings & Questioned Costs

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- 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)

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- 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

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- 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

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- 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

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- Form is required by law
- New DCF website is operational
- Must be finalized within 30 days of receiving audit reports.
- 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
- What is the District's role?

# Resources

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MDE School Auditing Manual (Be on the look out for the 2025 manual once posted to MDE website)

[2023-2024 Michigan School Auditing Manual](#)

Catalog of Federal Domestic Assistance

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

Federal Audit Clearinghouse

[FAC.GOV](https://www.fac.gov)

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

# Resources

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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?

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**THANK YOU!!!**