



Please share this Accounting and Auditing Alert with superintendents, business managers, program office personnel, and food service personnel.

SELECTED CHANGES IN THE MICHIGAN SCHOOL AUDITING MANUAL

The Michigan School Auditing Manual has been updated for the 2010-2011 fiscal year. It should be noted that the compliance supplements provided in the manual are not all inclusive; consult the OMB Compliance Supplement (revised annually) for full program requirements.

MANDATORY ELECTRONIC FILING OF SCHOOL DISTRICT AUDITS

Thank you for submitting your audits electronically. The first year of the combined audit submission process with the Department of Treasury has been a great success. MDE will continue to accept audits in the Department of Treasury format. This format requires **one** document containing the financial statements, single audit (if required), corrective action plan (if not included in the single audit), and management letters. The "archive" version of the Data Collection Form should be submitted as a separate document.

It is necessary that the documents be submitted to MDE without any type of security/password protection. MDE and the Department of Technology, Management and Budget have worked with the software vendor and developed a process that will automatically add security to each audit as it is saved to the system. The documents will be searchable, but locked.

You can find submission guidance at:

http://www.michigan.gov/mde/0,1607,7-140-6530_9091-95424--,00.html

To view audits submitted electronically, go to:

<http://web1mdcs.state.mi.us/nxt/gateway.dll?f=templates&fn=default.htm&vid=mofa:fa>

AUDITS REPORTING FEDERAL REVENUE OVER \$500,000 WITH NO SINGLE AUDIT

If the financial statements report over \$500,000 in federal revenue, but a single audit is not required because the district did not spend \$500,000 of federal funds, please submit a letter of explanation, including a reconciliation, to the Department.

ARRA GUIDANCE AND UPDATE

- Time Certification – Stabilization Funds: The USED has exempted the Stabilization funds from numerous federal requirements. This information may be found at: <http://www.ed.gov/programs/statestabilization/auditor-guidance.pdf>
- The 2010 Compliance Supplement may be found at: http://www.whitehouse.gov/omb/circulars/a133_compliance_supplement_2010

The ARRA addendum to the Compliance Supplement may be found at:

http://www.whitehouse.gov/omb/grants_circulars/

You should then go to: Audit Requirements – 2009 OMB Compliance Supplement – Addendum.

Guidance for 1512 Reporting may be found at:

<https://fmx.cpa.state.tx.us/fmx/recovery/sect1512/index.php>

- High Risk: Section .525 (d) (2) of OMB Circular A-133 states that “a new Federal program with new or interim regulations may have higher risk than an established program with time-tested regulations.” Section (d) (3) states “the phase of a Federal program in its life cycle at the auditee may indicate risk. During the first and last years that an auditee participates in a Federal program, the risk may be higher due to start-up or closeout of program activities and staff.” Appendix VII of the OMB A-133, Section I: American Recovery and Reinvestment Act: “Effects of Expenditures of ARRA Awards on Major Program Determination” states: “Due to the inherent risk with the new transparency and accountability requirements over expenditures of ARRA awards, the auditor should consider all Federal programs with expenditures of ARRA awards to be programs of higher risk in accordance with §.525 (c) (2) and §.525 (d) of OMB Circular A-133. Type A programs with expenditures of ARRA awards should not be considered low risk except when the auditor determines, and clearly documents the reasons, that the expenditures of ARRA awards are low-risk for the program.”

Exception: According to GSA-CX-1.7 (8-c.): Single Audit and Major Program Determination Worksheet: “For any non-SFA Type A program or cluster with expenditures of Recovery Act awards that is considered to be low-risk because it meets all of the following exceptions: (1) it had Recovery Act expenditures in the prior audit period, (2) it was audited as a major program in the prior audit period, (3) its Recovery Act expenditures in the current audit period are less than 20% of the total expenditures for the program or cluster, and (4) you have followed Section 520(c) and 525 of OMB Circular A-133 and determined that the program or cluster is otherwise low-risk.”

EDUCATION JOBS FUND

The Education Jobs Fund is a federal program that provides more than \$317 million in assistance to Michigan to save or create education jobs for the 2010-2011 school year. The Ed Jobs Fund is authorized in Public Law No. 111-126.

An LEA must use its funds only for compensation and benefits and other expenses, such as support services, necessary to retain existing employees, to recall or rehire former employees, and to hire new employees, in order to provide early childhood, elementary, or secondary educational and related services. (Note: LEA refers to LEAs, PSAs, and ISDs.) An LEA may use the funds to pay the salaries of teachers and other employees who provide school-level education and related services. The statute prohibits LEAs from using Ed Jobs Funds for general administrative expenses and other LEA-level support services expenditures as those terms are defined by the National Center for Education Statistics (NCES) in its Common Core of Data. For an individual with both LEA-level and school-level responsibilities, an LEA may use ED Jobs funds to pay only that portion of the employee's salary and benefits associated with the time spent on allowable (i.e., school-level) activities. The LEA must maintain documentation substantiating that amount of time.

In general, an LEA may not use the funds to pay for contractual school-level services by individuals who are not employees of an LEA. An LEA that contracts with another LEA to provide educational and related services may use Ed Jobs funds to pay that portion of the contract associated with the salaries and benefits of the employees of the LEA providing the services. There may be limited circumstances where a charter school maintains a sufficient level of control over a contract employee that the individual would be considered an "employee" of the charter school under a common-law agency test. This determination would have to be made based on the specific facts and circumstances of the relationship of the contract employee to the charter school. More information on the common-law agency test can be found at http://www.michigan.gov/documents/mde/3_EJF_Charter_Schools_334514_7.pdf.

All official information and guidance documents regarding Education Jobs Funds can be found on the MDE Grants website at <http://www.michigan.gov/mde/0,1607,7-140-5236-244541--,00.html>.

WRITTEN PROCEDURES

As a precondition to receive federal funds, prospective recipients must have effective administrative and financial internal controls. As described in 34 CFR Part 80, 2 CFR Part 215 and OMB Circular A-133 Compliance Supplement Part 6, school districts must have written procedures for the following:

- Financial management systems
- Payments
- Allowable costs
- Period of availability
- Matching or cost sharing (if applicable)
- Program income (if applicable)
- Procurement
- Equipment and real property (if applicable)
- Supplies
- Copyrights (if applicable)
- Subawards to debarred and suspended parties
- Monitoring and reporting program performance (if applicable)
- Financial reporting
- Retention and access requirements for records

In addition, districts should also have written procedures for:

- Cash management
- Conflict of interest
- Payroll
- Federal timekeeping

These written procedures should include provisions for training and consequences for compliance failures. Policies do not take the place of procedures. Districts should not continue to expect federal funds if they are unwilling or unable to develop written procedures. Auditors should report the lack of applicable written procedures.

DEFERRED REVENUE

When a school district has drawn down federal funds, but not expended them, the district has deferred revenue. Deferred revenue may be a violation of the Federal Cash Management Improvement Act (CMIA) and should be reported as a finding in the single audit, including questioned costs if interest is over \$10,000.

QUESTIONED COSTS

According to OMB Circular A-133, the auditor report should report the following in the Schedule of Findings and Questioned Costs:

- Significant deficiencies in internal control over major programs
- Material noncompliance with the provisions of laws, regulations, contracts or grant agreements related to a major program
- Known or likely questioned costs that are greater than \$10,000 for a type of compliance requirement for a major program
- Known questioned costs that are greater than \$10,000 for a federal program that is not audited as a major program
- Why the auditor's report on compliance for major programs is other than an unqualified opinion
- Known fraud affecting a federal award
- Instances when the Summary Schedule of Prior Audit Findings materially misrepresents the status of any prior audit finding.

LESSON PLANS NO LONGER ALLOWED AS TIMEKEEPING RECORDS

The USED has issued *Cost Allocation Guide for State and Local Governments*. It is informally called the "green book" and may be found at:

<http://www.ed.gov/about/offices/list/ocfo/fipao/guideigcwebsite.pdf> . This supersedes the unofficial guidance that the Department relied upon in allowing lesson plans to be used as federal timekeeping records. This has been confirmed by the USED Risk Management Service, Office of the Secretary. School districts need to ensure that they comply with the federal timekeeping requirements for personnel activity reports and semi-annual certifications stated in OMB Circular A-87.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

The Summary Schedule of Prior Audit Findings (SSPAF) is a requirement by OMB Circular A-133 for federal program findings. It is the school district's responsibility to provide this schedule and MDE's responsibility to follow-up on all findings. If the audit does not include a SSPAF, the Department will request it when the audit is reviewed.

BUDGET DETAIL FOR CONSOLIDATED APPLICATION PROGRAMS

The Michigan School Auditing Manual requires that auditors determine that expenditures are consistent with the approved grant application. Auditors may find it helpful to access the consolidated application in the MEGS system rather than requesting a paper copy from the district. Or if requesting a paper copy making sure the copy has the school level budget detail for each Title I school as well as the district details. Districts can give auditors read only access to the consolidated application. The budget summary and detail are available. It is a tabbed system. The school level budgets are listed as links at the bottom of the budget summary page for easy access.

USDA ENTITLEMENT & BONUS COMMODITIES

- The CFDA number for commodities is directly linked to the program under which the USDA makes the commodities available and should be identified with those programs. The categorical programs affected by this policy and their CFDA numbers are: the National School Lunch Program (CFDA 10.555), the Child and Adult Care Food Program (10.558), the Summer Food Service Program (CFDA 10.559), the Commodity Supplemental Food Program (CFDA 10.565), and the Food Distribution Program on

Indian Reservations (CFDA 10.567). For audits of auditee fiscal years beginning on or after May 1, 2008, state and local agencies and their auditors must identify commodity assistance by the CFDA numbers of the categorical programs under which USDA donated the commodities. (For example, an auditee that operated the National School Lunch Program would enter CFDA 10.555 and "Cash" on one line and report "Commodities - Entitlement" and "Commodities – Bonus" on the following lines. Both must be identified as major whenever the cluster is audited as a whole program.)

- The amounts on the Planned Assistance Level (PAL) Report are market values and need to be reported as revenues on the Schedule of Expenditures of Federal Awards (SEFA), Financial Information Database (FID), and financial statements (not as revenue on the School Meals Program Year End Report). PAL Reports will no longer be posted to the MDE website. It will be necessary to obtain the PAL Report from the Consortia providing the commodities.
- The actual cost (processing and delivery costs found on warehouse invoices), **NOT** the market value, (found on the PAL Report) should be used for the School Meals Program Year End Report. For the School Meals Program Year End Report, the commodity and commercial food cost **must** be calculated as follows:
Food Cost = **Cost** of Beginning Inventory + **Cost** of Purchases – **Cost** of Ending Inventory.
- When the market value is used on the School Meals Program Year End Report, it creates an excess fund balance that does not really exist and it falsely increases the per meal costs. The costs associated with lunch are used to calculate 31(d) payments.
- The market value of commodities reported on the SEFA, FID, and financial statements will **NOT** agree with the commodity processing and delivery costs reported on the School Meals Program Year End Report.
- To remain consistent, the market value amounts (from the PAL Report) reported on the SEFA and the financial statements must agree with the market value amounts reported in the FID (recorded as revenue in major class codes 481-482.)
- MDE recommends that, for purposes of the SEFA, FID, and financial statements, an ending commodity inventory is not necessary because the market value on the PAL may be reported as receipts and expenditures.
- If the district chooses to take an inventory (instead of the above method), the market value of the food **MUST** be included on the SEFA, FID, and financial statements.

GRANT AUDITOR REPORTS

With the implementation of the Department's Cash Management System (CMS), the districts will need to confirm federal grant funds with the Grant Auditor Report. All federal grant funds, including Child Nutrition Cluster have been transitioned to the CMS. The web link to the Grant Auditor Report is now available at the MDE – Office of Audits website or <https://mdoe.state.mi.us/cms/grantauditorreport.aspx>. Please note that the reports do not include payments from direct federal sources or other non-MDE sources.

FRAUD, ILLEGAL ACTS, CONTRACT VIOLATIONS, GRANT VIOLATIONS, ABUSE

Chapter 5, Section 5.18 of the Yellow Book requires auditors to report known or likely fraud, illegal acts, and violations of provisions of contracts or grant agreements or abuse directly to parties outside the audited entity in the following two circumstances:

- a. When entity management fails to satisfy legal or regulatory requirements to report such information to external parties specified in law or regulation, auditors should first communicate the failure to report such information to those charged with governance.

If the audited entity still does not report this information to the specified external parties as soon as practicable after the auditor's communication with those charged with governance, then the auditors should report the information directly to the specified external parties.

- b. When entity management fails to take timely and appropriate steps to respond to known or likely fraud, illegal acts, violations of provisions of contracts or grant agreements, or abuse that (1) is likely to have a material effect on the financial statements and (2) involves funding received directly or indirectly from a government agency, auditors should first report management's failure to take timely and appropriate steps to those charged with governance. If the audited entity still does not take timely and appropriate steps as soon as practicable after the auditor's communication with those charged with governance, then the auditors should report the entity's failure to take timely and appropriate steps directly to the funding agency.

This issue is addressed in the Michigan School Auditing Manual, Section A, item II.B.3. Written reports should include a description of the incidents, names, dates, amounts and fund sources.

The Department has been cited by the USDE Office of Inspector General for failure to obtain an investigation report from a district. The OIG recommended that the Department improve its monitoring of local districts in this area. It is important that auditors report violations if districts fail to do so.

CONFLICTS OF INTEREST AND RELATED PARTY TRANSACTIONS

It is important that districts document material related party transactions (RPT) in the footnotes to the financial statements. According to FAS-57, footnotes should include enough details to adequately describe the situation. Examples are: management agreements; borrowing and lending; and sale or lease of real estate, buildings, and equipment. The interpretation of SAS-45 states that the auditor should apply sufficient audit procedures to provide reasonable assurance that related party transactions are adequately disclosed in the financial statements and are not materially misstated. The Department has discovered many RPTs at public school academies and asks that due care be given in those audits. Conflicts of interest and RPTs should be reported unless they are clearly insignificant.

UNIFORM BUDGETING AND ACCOUNTING ACT

The Uniform Budgeting and Accounting Act establishes budget and accounting requirements for local governments and school districts, including public school academies, MCL 141.437.440. Material violations of the Uniform Budgeting and Accounting Act should be written up as financial statement findings in the audit report.

INCREASED FEDERAL REVIEW

There is increased nationwide attention from the USDE regarding administrative/internal controls. Administrative/internal controls are a condition for receiving federal funds. Your auditor will be looking for adequate procedures. Administrative/internal controls include, but are not limited to:

- Budget systems
- Cash management controls
- Indirect costs
- Payroll controls

- Procurement procedures
- Property management/inventory procedures
- Time distribution
- Segregation of duties
- Audit resolution
- Subrecipient monitoring

There is increased federal review of supplanting. Supplanting is covered in Section G (2.2) of the Cross-Cutting Section of the Compliance Supplement of OMB Circular A-133. For additional guidance see the Oklahoma Letter found at MDE's website:

http://www.michigan.gov/documents/mde/Oklahoma_Supplanting_Letter_233327_7.pdf

Another area of increased federal review is related to the priority ranking of Title I schools. In some instances, federal auditors found that allocating carryover funds violated priority ranking of Title I schools. Districts need to take care to track carryover in high poverty buildings.

LOW RISK AUDITEE DESIGNATION

Many districts receive audit findings related to SAS 112 stating that district personnel did not have the expertise or knowledge to prepare financial statements according to GAAP. This was the correct way for the auditors to report this issue, rather than as a management letter issue or disregarding it. Unfortunately, if it was reported as a material weakness, the district is not able to be a low-risk auditee this year unless it applies for a waiver.

OMB Circular A-133 does permit waivers for the purposes of low-risk status (§__.530). Districts need to request waivers from either their cognizant agency or oversight agency for audit. Only districts expending more than \$25 million in federal funds each year have a cognizant agency (§__.400). The other districts have an "oversight agency" for audit (§__.105). The oversight agency for audit is the federal awarding agency that provides the predominant amount of direct funding to a recipient not assigned a cognizant agency for audit. The USDE would be the oversight agency for audit for most, if not all, of the districts.

This waiver process requires concurrence by the Michigan Department of Education (MDE). The Department has signed a generic concurrence letter for all districts to use. The concurrence letter can be found at the MDE website and in the Michigan School Auditing Manual.

Note: If you need a waiver, it should be requested as soon as you know that it is needed.

STATEMENTS ON AUDITING STANDARDS (SAS) 115

This statement supersedes SAS 112. The effective date is for all audits of financial statements for periods ending on or after December 15, 2009. It was issued to align the definitions and related guidance for evaluating deficiencies in internal control with the definitions and guidance in SSAE No. 15. SAS 115 revises the terms material weakness and significant deficiency and revises the list of deficiencies in internal controls that are indicators of material weaknesses, however, it no longer includes a list of deficiencies that ordinarily would be considered at least significant deficiencies.

STATEMENTS ON AUDITING STANDARDS (SAS) 117

Governments frequently establish governmental audit requirements for entities to undergo an audit of their compliance with applicable compliance requirements. SAS No. 117 was primarily developed in response to the results of a federal study on the quality of audits performed under OMB Circular A-133, which showed that improvements were needed in many areas.

SAS 117 establishes standards and provides guidance on performing and reporting on an audit of an entity's compliance with applicable compliance requirements of a governmental audit.

SAS 117 updates SAS 74 to reflect changes in the compliance audit environment and incorporates the risk assessment standards. It requires the auditor to adapt and apply the AU sections of AICPA Professional Standards to a compliance audit and provides guidance on how to do so. It identifies the AU sections that are not applicable to a compliance audit, defines terms related to compliance audits and used in the SAS, and identifies the elements to be included in an auditor's report on a compliance audit. The SAS is effective for compliance audits for fiscal periods ending on or after June 15, 2010 with earlier application permitted.

OTHER

Consistency – Please be sure that balances are consistent in financial data submitted to the state (i.e., audit figures should match FID figures; special education reposting should also match FID figures). The financial data on the SEFA should agree with the financial statements and should balance. Beginning accrued/deferred revenue balances should match the ending accrued/deferred revenue balances from the prior year.

The *Michigan School Auditing Manual* is available at: www.michigan.gov/mdeaudit . Questions about single audits or the *Michigan School Auditing Manual* can be directed to Gloria Suggitt at (517) 373-4591, or e-mail: suggittg@michigan.gov .

2010-11 COMPREHENSIVE ANNUAL FINANCIAL REPORT (Financial Information Database – FID)

Due Date:

The 2010-11 comprehensive annual financial data will be collected electronically via the Financial Information Database (FID) and is due November 15, 2011. Sections 18(3) and 18(8) of the State School Aid Act set the legal mandate for this reporting and require MDE to withhold state school aid payments for non-compliance.

The FID continues to be the **only** submission option for fiscal year 2010-11 financial data. The Center for Educational Performance and Information (CEPI) is the entity responsible for collecting the data from districts. MDE will maintain responsibility for monitoring proper accounting and reporting by the districts. Instructions are available from CEPI. The website address is www.michigan.gov/CEPI ; choose MEIS Data Services, then FID.

Reminders:

ARRA – Under the American Recovery and Reinvestment Act (ARRA) public schools were awarded Budget Stabilization Funds. These funds were a dollar for dollar exchange of State for Federal Revenues. Accounting for the (ARRA) Education

Stabilization funds should be as follows. The regular Section 22b revenue should be reduced by the amount of the Section 22b Discretionary Payment Adjustment showing on the front page of the State School Aid Financial Status Report. The adjusted amount will be reported as a reduction to revenue major class code 311-0010. Once the district has appropriately expended, drawn the ARRA Budget Stabilization funds from the Cash Management System, and met all district established revenue recognition criteria, its administration may record the federal ARRA Education Stabilization Funds revenue in major class "412-Unrestricted Federal Revenue Received through the State" with suffix code "0230-American Recovery and Reinvestment Act of 2009."

The Michigan Department of Education has met the federal requirement allowing our local educational agencies to consider the ARRA Budget Stabilization funds similar to local and State funds for purposes of calculating Maintenance of Effort. **For this reason, it is essential** that a district record the ARRA Budget Stabilization funds to the Financial Information Database (FID) using the codes indicated above. This will help us ensure that the district's FY 2011 maintenance of effort calculation is accurate.

The expenditures for the ARRA Education Stabilization funds should be recorded in the function and object for which the funds were utilized. The expenditure State Code is "641." Any other ARRA revenues should be reported as federal revenue in the major class code that best defines the way the funds were received by the district. To avoid the dreaded "January" letters from MDE, we encourage districts to utilize the appropriate Major Class/Suffix Codes on the revenues and function/object/state codes on the expenditures.

Fund Modifications – When a district moves funds from one governmental fund to another, the FID should show two records. The fund receiving the money would show a revenue major class code record beginning with "6" followed by the fund number of the fund disbursing the money. The fund disbursing the money would show an expenditure function record beginning with "6" followed by the fund number of the fund receiving the money. For example: The General Fund subsidizes the Athletic Fund. The General Fund would show an expenditure record 11-621-8110-\$50,000 and the Athletic Fund would show a revenue record 21-611-0000--\$50,000. The FID has an edit check built in to assure that district wide fund modifications out equals fund modifications in.

Budget Posting to the District's Website – Language in Section 18(2) of the State School Aid Act requires local districts, intermediate districts and public school academies to post their annual operating budget and subsequent amendments on their website. Any amendments to the FY 2011 budget approved by the board will require posting to the website. The budget postings should include the General Appropriation Resolutions or budgets with notation indicating when they were adopted by the local school board. This should be done for all funds for which the board adopts a budget. The Michigan Public School Accounting Manual, Section IV contains further details.

The 2009-10 State School Aid Act, Section 18 (2), requires districts to include a "Budget Transparency Reporting" link on each district's homepage. Guidelines for this reporting may be found in the *Michigan Public School Accounting Manual*, Section II, C.05 at the following URL: http://www.michigan.gov/documents/sc-ii_13265_7.pdf.

Supplemental Schedule – Districts that purchase services in an amount equal to or greater than 50% of their general fund current operating expenditures as reported on the 2008-2009

FID must complete a Supplemental Schedule of Purchased Services. The schedule will collect expenditure detail for services that are purchased from educational service providers.

Deficit Fund Balance - A district reporting a general fund deficit (negative fund balance before reserves) must notify the Michigan Department of Education as soon as the deficit is confirmed and should not wait until the FID report is filed. Section 102 of the State School Aid Act discusses deficit districts. **Districts adopting a budget deficit in the current year should notify MDE immediately.** The notification should be in written form and mailed to: Glenda Rader, State Aid and School Finance, PO Box 30008, Lansing, MI 48909.

State School Aid Revenue Recognition - State school aid unrestricted revenue reported on the 2010-11 financial data submission should be consistent with amounts shown on the district's August State School Aid Status Report. Minor differences may occur as the result of accounts payable or receivable issues the district has established. Care should be taken to record the revenues in the appropriate funds and categories as discussed in the *Michigan Public School Accounting Manual Appendix*. Account numbers for State Aid may be found on our website at http://www.michigan.gov/mde/0,1607,7-140-6530_6605-21356--,00.html .

Transfer of Funds Between School Districts – There are three separate major class codes used to record pass-through funds received from another Michigan public school district. Local pass-through funds (Act 18, tuition, transportation, etc.) should be reported in revenues, major class codes 511-519. State pass-through revenues (state aid categoricals, etc.) should be reported in major class codes 317-318. Federal pass-through revenues (IDEA, Title I, etc.) should be reported in major class codes 417-418.

Expenditures Made to Other Public Schools – Districts must record expenditures made to other public schools in the function code purchased. For example, business services should be recorded in function 252 and object 8290. Tuition paid to another public school will be recorded in function "1xx" and object 8210. **Sub-grantee/Flow through to another Michigan k-12 public school district should be recorded in function "411-Pmt. To Another Public School-Subgrant/flow through distributions only" with object code "8510-Subgrant/Flowthrough disbursements."**

Medicaid Funds – The medical services or "fee-for-service" component of the Medicaid School Based Services program is not subject to the Single Audit Act of 1996. The "fee-for-service" component should be recorded as local source revenue by the district; the appropriate major class code is "181" or "519" if received through another public school. The Transportation component is now part of the Medicaid "fee-for-service" component. The Medicaid Administrative Outreach component is subject to the Single Audit Act and should be recorded as federal revenues by the district; the appropriate major class code is either "412" or "418" depending on how the funds are received by the district. (See the Medicaid compliance supplement in the *Michigan School Auditing Manual* for further information.)

Average Teacher Salary - Average teacher salary will be calculated by dividing the total dollar amount from functions 111-113 and object 1240 reported in the FID by the full-time equivalency reported in those same functions from the December 2009 REP. Please coordinate the reporting to assure reasonable average teacher salary computations.

Special Education Expenditures – FID expenditures for Special Education instruction (function 122) should be equal to or greater than the amounts reported on the SE4096, Allowable Special Education Cost Report. The comparison is done by object code category.

Debt Retirement Funds - The Uniform Budgeting and Accounting Act (MCL 141.422a) no longer requires districts to adopt a budget for debt retirement funds.

USF – Universal Service Funds – For non-material amounts, the districts should record the amounts as discounts. The district will only be billed for its share of service costs. The discount is separately billed to the USF. For material amounts, the districts should consider reporting the discount as revenue (major class code 192). These are not considered federal revenues. Amounts received in the current year for expenditures incurred in a prior year should be reported as local revenue (major class code 192).

Deferred Revenue – Any restricted federal/state grant funds received (i.e., At Risk, Adult Education, Title I, Title V...) remaining unspent at year-end should be recorded in the financial statements as deferred revenue (major class 471) rather than as a reserve of fund balance (major class 71x). This does not apply to funds that are awarded without restriction as to use. The logic is that restricted funds aren't earned until they are used for the restricted grant purpose. If the funds aren't used for the grant purpose in a subsequent year, they are due back to the grantor.

GASB 54 – For FY beginning 2010-11, GASB #54 has redefined fund balance categories. The new categories are included in the January 2010 update to the Michigan School Accounting Manual under Section II, E, OS, and the Appendix – Chart of Accounts, Balance Sheet, Major Class, pages 13 and 14.

Copies of the Michigan Public School Accounting Manual may be found on the Michigan Department of Education's website at: www.michigan.gov/mde under Keywords, Michigan Public School Accounting Manual. Questions regarding accounting issues may be addressed to Glenda Rader. Email: raderg@michigan.gov or phone: 517-335-0524.