SECTION II - REQUIREMENTS

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A.01 ACCOUNTING PRINCIPLES

Accounting may be defined as the analyzing, recording, summarizing and interpreting of financial transactions of an economic enterprise. Accounting for school districts comprises these same activities under the restrictions imposed by federal, state, and local authorities. When financial transactions presented in accordance with generally accepted accounting principles differ from those based on legal requirements, supplemental schedules should be prepared to disclose legal compliance.

It is not the function of this manual to precisely define the accounting methods that should be used by all school districts since districts vary widely in size and complexity. In choosing accounting methods to be followed, it should be emphasized that a major purpose of school district accounting is to produce financial statements that will enable policy makers, administrators, managers, and others to understand the financial position and operations of the district. Any improvements and refinements in the system that will lead to more accurate, timely, and understandable financial statements should be considered. It is necessary to balance the benefits of an improved system with the related costs for implementation. As a minimum, an adequate school district accounting system should meet each of the criteria listed below as stated in *Principles of Public Accounting* published by the U.S. Department of Health, Education, and Welfare.

A school district financial record system should be adequate to provide financial and related operational information for all interested parties; the school board; the administration; the public; auditors; local, state, and federal authorities; and school employees. The adequacy of the accounting systems depends on whether both current and historical information is available for decision-making purposes.

The accounting system should be designed to demand accuracy and a reasonable degree of internal control. If so designed, it will automatically assist those who are performing the daily work on the records as well as those who supervise them.

A school district accounting system should be consistent with generally accepted governmental accounting principles. Valid comparisons of monthly or yearly operations in different time periods can be made only if the items are treated in a consistent manner. Changes and improvements in the accounting system may prove necessary and these should be made at logical times in the accounting period.

School district financial accounting systems should be uniform to permit maximum usefulness. They should allow for financial, operational, or performance comparisons with other school districts on local as well as state and national levels. Uniformity will insure that the items being compared are similar items, and standard terminology and definitions should be used

A.02 BASIS OF ACCOUNTING

A school district's accounting basis determines when accounting transactions and economic events are reflected in its financial statements NCGA-1 (Governmental Accounting and Financial Reporting Principles) states that basis of accounting refers to "when revenues, expenditures, expenses and transfers-and related assets and liabilities – are recognized in the accounts and reported in the financial statements. "The modified accrual basis is the accepted method of governmental fund accounting for the economic resources of a school district. This would include the General, Special Revenue, Capital Project, Debt Service, and Expendable Trust funds. Under this method:

Revenues are recognized when they meet both measurable and available criteria. "Available" means the revenue is collected either during the year, or soon enough after the end of the year that it can be used to pay liabilities of the current year. See Section II. E.02 for additional guidance related to the accrual of revenues.

Deferred Revenues are recorded when potential revenue does not meet both the measurable and available criteria for recognition in the current period. In most cases, resources are considered available if they are collected during the fiscal year or will be collected within 60 days of fiscal year end. If the district receives the funds before it has legal claim to them, a liability should be established. For example, a district receives adult education funds under the State School Aid Act, MCL 388.1707 during the fiscal year, but does not spend them during the year for allowable adult education programs. A liability should be established in the amount of adult education funds received but not expended for adult education. In subsequent periods, when both revenue criteria are met, the liability may be extinguished and corresponding revenue recognized.

Expenditures are recognized when the related fund liability is incurred, except for principal and interest on long term debt which are recorded when due. As an example, expenditures for payroll should be recorded in the period in which the services to receive the compensation were completed.

Encumbrances or commitments related to uncompleted contracts for goods or services are recorded for budgetary control purposes. Encumbrances outstanding at year end represent the estimated amount of the expenditures that will be incurred when contracts in process at year end are completed. Encumbrances outstanding at year end do not constitute expenditures or liabilities. However, it is appropriate to establish a year end reserve for encumbrances which set aside a portion of fund balance.

Inventories may be accounted for using either the purchases or consumption method. Under the purchases method, inventories are treated as expenditures when purchased regardless of when they are actually consumed. Under the consumption method, inventories are treated as expenditures when used. Districts should refer to the *Michigan School Audit Manual* for further information related to accounting for inventories of School Food Commodities and Bonus Commodities.

Fund Modifications- Transfers of financial resources among funds should be recognized in all funds affected in the period in which the inter fund receivable(s) and payable(s) arise.

Basis of Accounting for Proprietary and Non-Expendable Trust funds

Districts should utilize the full accrual basis of accounting when operating Proprietary funds (Internal Service and Enterprise) and non-expendable Trust funds. Under this method, revenues are accrued when earned and expenditures are recognized when incurred for goods and services. Fixed Assets and long term debt incurred for proprietary fund purposes are to be recorded in the proprietary fund accounts with periodic depreciation charged against fund revenues. We encourage districts to consult with their auditors before establishing proprietary funds because of the accounting differences they present.

B.01 DESCRIPTION

A school district accounting system should be organized and operated on a fund basis. A fund is a fiscal and accounting entity with a self-balancing set of accounts. Legal reporting requirements and the varied nature of school district's operations make it necessary for the school district to account for its activities through the use of separate funds. Each fund will account for designated assets, liabilities, fund equity, revenues, and expenditures based upon the purpose of the fund.

District-wide reporting should include information related to accounting and control over long-term debt and capital assets.

B.02 TYPES OF FUNDS

School districts are allowed to maintain the following seven types of funds. The first four funds are used principally to account for the ongoing activities of the school district financed with general school district revenues in the form of taxes, state aid, grants and other entitlements. They are also used to record the acquisition of capital assets.

a. GENERAL FUND

All transactions related to the operation of the school district, except those transactions required by law to be entered in other funds, are recorded in the General Fund.

Local taxes and all other operating revenues or assets received or due from local, state and federal sources are recorded in this fund. Expenditures financed by these revenues are also recorded in the General Fund.

b. SPECIAL REVENUE FUNDS

Special Revenue Funds are used to account for activities where there is a need to determine the results of operations, such as food service, bookstore, community service, **cooperative** activity, and public purpose trust funds. Interscholastic Athletic funds have been considered special revenue funds in the past. However, with the implementation of GASB #54, for most districts the interscholastic athletics will become part of the general fund. In most districts the revenues do not generate a significant enough amount to be considered a special revenue fund.

According to GASB #54, Special Revenue funds are only to be used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditures for specified purposes other than debt service and capital projects. The term “proceeds of specific revenue sources” establishes that one or more specific restricted or committed revenues should be the foundation for a special revenue fund. For comparability and ease of reporting, we recommend that districts only report activities that constitute a “significant” restricted revenue stream as a special revenue fund. See Accounting Issue E.11 for further clarification.

Intermediate School Districts and Local School Districts that operate a Center Program as specified in Section 6 of the State School Aid Act may also keep a Special Education Fund. Intermediate School Districts may also maintain a Vocational Education fund.

Many districts may have grants and other programs that they may consider special revenue funds. However, if those programs or grants are used for the primary purpose of educating the district’s K-12 pupils they are to be reported in the General Fund on the Comprehensive Annual Financial Report reported to the state. The district may maintain them internally in separate funds, but for state reporting they should be combined to the General Fund. Districts should be aware that keeping separate funds internally may promote confusion with financial data users as local and state financial reports may differ.

c. DEBT SERVICE FUNDS

The receipt of funds for the payment of interest, principal, and other expenditures on long-term bonded debt are recorded in the Debt Service Fund. Primary sources of revenue for this fund are debt retirement tax levies and earned interest.

d. CAPITAL PROJECTS FUNDS

The purpose of the Capital Project Fund is to account for receipt and disbursement of monies used for the acquisition of capital assets, including land, buildings, and equipment. Principal sources of revenues are from the sale of bonds, tax levies, and earned interest. Unexpended resources no longer needed on projects for which the bonds were originally approved generally must be transferred to the Debt Service Fund. Legal counsel should be sought for questions related to the appropriate use of funds levied through a voter approved millage.

e. TRUST FUNDS

Trust Funds are used for assets under the administrative control of the school district functioning in a trustee capacity. The school district typically exercises discretionary authority over the investment of the trust fund assets, and as trustee, must take responsibility for the expenditure of assets for their intended purpose. Examples include situations where a school district typically agrees to function in a trustee capacity for endowments, gifts and bequests and, under certain circumstances, foundations. This fund type should be used when a formal/legal trust **does not** exist, the district **does not** have decision-making authority, but **has** administrative oversight.

f. FIDUCIARY FUNDS *(AGENCY FUNDS PRE-GASB #84)*

Fiduciary Funds are used to report assets received and disbursed on behalf of student groups and other school-related groups. The school district acts only as the receiving and paying agent for these groups and has no administrative control or involvement in the activity. Private Purpose Trust Funds are also often considered Fiduciary Funds.

Fiduciary Funds are typically limited to student activity funds and other school organizations where a district does not have administrative control over their activity. Liability transactions of a specific fund should be recorded in the same fund rather than using separate agency funds. For example, payroll withholdings of general fund employees should be recorded in the general fund. Likewise, flow through funds from other governmental agencies should normally be recorded in the general fund (or other specific governmental funds) rather than in an agency fund.

As of 2019-20 and the implementation of GASB Statement #84, Fiduciary Funds now generate revenue and expenditure transactions, as well as year-end Net Position balance sheet amounts.

Please refer to Section II E.18 of the Michigan Public School Accounting Manual for information and guidance related to GASB Statement #84, Fiduciary Funds, and the transition of funds previously considered Agency Funds to governmental funds.

g. PROPRIETARY FUNDS

Proprietary Funds should be used in situations where the flow of economic resources is required. As mentioned earlier, the accounting and reporting are on full accrual basis. Two examples of proprietary funds that districts may operate are Enterprise and Internal Service funds.

Enterprise funds – This fund type may be used to report an activity for which a fee is charged to external users for goods and services. We encourage districts to check with Generally Accepted Accounting and Reporting for governmental units and their local school district auditor before establishing an enterprise fund as this type of fund utilizes different accounting and reporting standards.

Internal Service funds- An Internal Service Fund may be used to account for activities that involve the governmental entity providing goods or services to other funds or activities of the school district. Some examples may include a district wide print shop operation or a self-funded insurance program. We encourage districts to check with Generally Accepted Accounting and Reporting for governmental units and their local school district auditor before establishing an internal fund as this type of fund utilizes different accounting and reporting standards.

B.03 DISTRICT WIDE REPORTING OF CAPITAL ASSETS AND LONG TERM DEBT

Districts must maintain information on Long Term Debt and Capital Assets for reporting under GASB-34 standards. The *Michigan School Accounting Manual* provides two district-wide reporting account groups to keep track of the information.

a) LONG-TERM DEBT ACCOUNTS

This account group is used to account for the unmatured principal of bonds, notes and other forms of non-current liabilities or long-term general obligation indebtedness that is not a specific liability of any other fund.

b) CAPITAL ASSET ACCOUNTS

This account group is used to account for capital assets (land, buildings, vehicles and equipment) owned by the school district. Capital assets do not represent financial resources available for expenditure but are items for which financial resources have been used. The cost of capital assets acquired are charged as expenditures in another governmental fund as incurred while accountability for those assets should be maintained in the Capital Asset Account Group throughout the life of the asset.

C.01 GENERAL

a) INTRODUCTION

The Michigan Compiled Laws contain the legal requirements for school district accounting. The Compiled Laws, together with Administrative Code Rules governing school accounting, have the force and effect of law and are legally binding on Michigan's local educational agencies. This manual, having been adopted by the State Board of Education and incorporated into Administrative Code Rules R340.851 -R340.854, is the required accounting manual for Michigan public schools.

There are additional requirements found in the Michigan Compiled Laws that are not specifically mentioned in the manual. If specific questions are raised, a thorough study of Michigan Compiled Laws and Administrative Code Rules should be made before arriving at a decision. In some cases, school authorities should obtain legal advice pertaining to a specific transaction prior to its initiation.

b) SPECIFIC REQUIREMENTS

Accounting - Each school district must adopt the basic accounting system as prescribed by the Michigan Department of Education and in the *Michigan Public School Accounting Manual*. Authorization is found in Revised School Code (MCL 380.1281(1c) and MCL 380.622(1)) and Administrative Rule (R340.852). A system of modified accrual accounting for government funds is required. The fiscal and accounting year begins with the first day of July in each year. (MCL 380.1133)

Auditing - Accounting documents and records must be audited annually by a certified public accountant. A copy of the audited financial statements must be transmitted to the Michigan Department of Education. (MCL 388.1618)

Budgeting -Each intermediate school district (ISD) operating under the 15 mill tax limitation must submit its budget and statements to the County Allocation Board on or before the third Monday in April of each year. P.A 621, The Uniform Budgeting and Accounting Act of 1978, outlines budget requirements for local units of government. **Michigan public schools are required to post a copy of their board adopted budget on a district website within 30 days of adoption (MCL 388.1618). See Section IV of this manual for more information related to budgets.**

Reporting -The treasurer of the district or other appointed fiscal agent must keep records of receipts and disbursements and identify the sources from which the same have been paid. A report must be presented to the board after the close of each school year. Every board shall make an annual report to the Michigan Department of Education. (MCL 380.1618)

Website Reporting –Districts must post certain financial data on the district's Main Home Page. (MCL 388.1618(2)) See C.05 for the MDE guidelines related to this law.

C.02 TAX LIMITATION AMENDMENT (HEADLEE)

a) DESCRIPTION OF THE ISSUE

The Headlee Amendment (P.A. 35 of 1979) added 10 sections to the Michigan Constitution and amended another. It imposes tax limitations on the state, county, municipal, school district and related local governmental units. There are six basic restrictions or provisions:

- The Amendment limits growth in state revenue to the growth in personal income for the State of Michigan.
- The Amendment prohibits the state from mandating activities of local governments without reimbursing these local governments for the increased costs.
- The Amendment requires a roll back in local millage rates if the local tax base (taxable value) increases more than inflation (Headlee Rollback).
- The Amendment requires voter approval for bonds pledging the full faith and credit of the local government.
- The Amendment prohibits the imposition of any local tax not previously authorized without voter approval.
- Tax limitations (rollback) do not apply to debt service millage rates.

b) FACTORS NEEDED TO DETERMINE HEADLEE ROLLBACK

1) Inflation Rate: Computed by the Michigan Department of Treasury and published by the State Tax Commission in January of each year. The data are disseminated to local assessors and county equalization directors.

2) Current Year taxable value (TV) as certified by County Treasurer by second Monday in June.

- Current year additions in TV
- Current year losses in TV

3) Prior Year: Taxable value (TV).

c) CURRENT YEAR MILLAGE REDUCTION FRACTION

The Current Year Millage Reduction Fraction (MRF) is a very important concept and is calculated as follows:

Millage Reduction Fraction (MRF) =

(Prior Year Taxable Value – Current Year Taxable Value losses times the inflation rate (2.xxx) / (Current Year Taxable Value – Current Year Taxable Value Additions)

If MRF is less than 1.0--- the TV has increased faster than the rate of inflation and rollback is required.

If MRF is 1.0 or greater--- the TV has increased as fast as or less than the rate of inflation.

A Rollback is required only if the Compounded MRF is less than 1.

Starting with taxes levied in 1994, the "Headlee" rollback permanently reduces the maximum, rate or rates authorized by law or charter. A compound millage rate is no longer calculated.

Beginning in 1996, one rollback fraction is calculated and applied to local school district millage levied on all property: i.e. sinking fund millage, library millage, community college millage, enhancement millage (1996 only), the number of operating mills authorized to be levied by hold-harmless districts on all property, after combining the "basic" and supplemental millages.

A separate rollback fraction is calculated and applied to local school district millage levied only on property that is not homestead or qualified agricultural property: "basic" mills...18 or the 1993 rate whichever is less, reduced by the number of supplemental mills authorized by the school code to be levied by hold-harmless districts.

For most districts, only the rollback fraction on "nonhomestead" property is applied. For 1997, this fraction is calculated using the 1996 and 1997 taxable value of property that in 1997 is not homestead or qualified agricultural property. (If property is "nonhomestead" in 1997, its 1996 and 1997 values are used in the calculation, even if the property was homestead property in 1996.)

See State Tax Commission Bulletin No. 10 of 1997 for further discussion of Millage Rollbacks. For the State Tax Commission recommended method for calculating millage rollbacks for districts levying supplemental ("hold-harmless") mills, see their memo of June 9, 1997.

d) AUTHORIZED MILLAGE RATE

1) If MRF is Less than 1.0; MRF multiplied by Prior Year Millage Rate is Permanently Reduced by MCL 211.34d
= Current Year Authorized Millage Rate

2) If MRF is 1.0 (MRF cannot exceed 1.0); Prior Year Millage Rate is Permanently Reduced by MCL 211.34d
= Current Year Authorized Millage Rate

3) Current Year Authorized Millage Rate (or "Current Year Millage Rate Permanently Reduced by MCL 211.34d")
= Total Millage Rate Allowed to be levied under Headlee Amended (unless a specific vote of taxpayers allows a greater amount.)

e) EXCEPTIONS

1) Additional voted millage approved after 5/31 of each year. Reduced, if necessary, beginning with subsequent year levy.

2) Taxpayers can approve the levy of a tax rate in excess of limit set by rollback by approving the levy of a specific number of mills in excess of the limit.

f) ADJUSTMENTS

Adjustments to the authorized millage rate in the subsequent year will be required if excess tax revenue in the current year resulted from:

- Error in prior levy
- Taxable value is changed as a result of an equalization appeal

Adjustments to the authorized millage rate in the subsequent year may be made if the above resulted in a shortage of tax revenue in the current year. Anytime there is a taxable value change, its possible impact on state membership aid should be considered.

C.03 TRUTH IN TAXATION ACT

a) EXPLANATION OF ACT (Public Act No. 5, P.A. of 1982)

If the taxable value of existing property subject to ad valorem taxes within a school district increases from one year to the next, the millage rate that can be levied will AUTOMATICALLY decrease unless the school board acts to approve the levy of an "additional millage rate." This Act specifically excludes debt retirement millage and building and site millage.

If a school district complies with Section 16 of the Uniform Budgeting and Accounting Act and MCL 141.412, it is not required to comply with the truth-in-taxation requirements.

The new requirement of Section 16 of the Uniform Budgeting and Accounting Act is that the Appropriations Act must set forth the millage rate to be levied and the purposes for that millage. MCL 141.412 requires the published notice of the budget hearing to include the following statement printed in 11-point boldfaced type: "The property tax millage rate proposed to be levied to support the proposed budget will be a subject of this hearing."

b) LIMITATION ON LEVY

A school board may not levy an operating millage for an ensuing fiscal year if that millage levy will generate more revenue than the sum of:

1) An amount equal to the taxes levied for operating purposes for the concluding fiscal year on existing property; plus

2) An amount equal to the taxes levied at the "base tax rate" on additions to taxable property for the ensuring year.

"Base Tax Rate" BTR = ((Prior Year Taxable Value minus Losses) **divided** by (Current Year Taxable Value- Additions)) **Multiplied** by Prior Year Levied Millage Rate.

c) EXAMPLE

An example of how Truth in Taxation would affect a school district can be shown as follows:

1996-97 TV = $132,000,000 (assumes no losses)
1996-97 Levied Millage Rate = 18 Mills
1997-98 TV (less additions) = $150,000,000
BTR = $132,000,000/$150,000,000 = .8800 X .018 = .01584 = 15.84 mills

In this example, the millage levy limitation would be 15.84 mills unless the school board approved a higher levy in accordance with Truth in Taxation.

d) BOARD ACTION REQUIRED

1) Adopt a resolution proposing an additional millage rate

2) Publish notice of a public hearing - six days prior to hearing

3) Hold a public hearing on proposed increase

4) Adopt a resolution approving the levy of an additional millage rate, at least seven days after hearing

Specific details are spelled out in the Act for approving an additional millage. The board must, by resolution, announce its intent to levy the millage that it wishes to restore prior to the public hearing. The board action to officially approve the levy of this millage rate cannot be taken until seven days after the public hearing.

e) ADDITIONAL REQUIREMENTS

School board members and administrators should note the following requirements applicable to the notice and public hearings provisions of the Act:

1) Notice - Notice of a public hearing must be published in a newspaper of general circulation and shall not be placed in that portion of the newspaper reserved for legal notices and classified advertisements. This notice shall be published not less than six days before the public hearing. The newspaper notice must be eight vertical column inches by four horizontal inches. The notice must be in not less than 12-point type and must be preceded by a headline in not less than an 18-point type. The headline shall read: "Notice of a Public Hearing on Increasing Property Taxes." The notice must specify the time, date and place of the public hearing. Additionally, the notice must include a statement indicating the proposed additional millage rate and the percentage by which this proposed millage rate would increase revenues for operating purposes. Further, the notice must also provide a statement that the school board has complete authority to establish the number of mills to be levied from within its authorized millage rate. Finally, the school board may include whatever other pertinent information it wishes.

2) Public Hearing - A public hearing must be held to discuss the levy of additional millage as proposed in the notice. The hearing must be held in compliance with the Open Meetings Act and may be held jointly with the school district's annual public hearing on the proposed budget. If both public hearings are held jointly, the notice required by Public Act 5 may be published jointly with the notice of the budget hearing.

f) HOW MANY MILLS CAN THE BOARD RESTORE?

1) Mills can be restored up to the less of:

- Headlee limitation
- Total mills voted by the electorate

2) Mills can be restored above Headlee limitation to the total mills voted by the electorate if submitted to the voters.

C.04 50 MILL LIMITATION

a) BACKGROUND

The Constitution of the State of Michigan of 1963, limits the aggregate amount of millage that may be levied to 50 mills. The passages that follow explain how this limitation affects operations in Michigan school districts.
The Constitution states in Article IX, Section 6:

...Except as otherwise provided in this constitution, the total amount of general ad valorem taxes imposed upon real and tangible personal property for all purposes in any one year shall not exceed 15 mills on each dollar of the assessed valuation of property as finally equalized. Under procedures provided by law, which shall guarantee the right of initiative, separate tax limitations for any county and for the townships and for school districts therein, the aggregate of which shall not exceed 18 mills on each dollar of such valuation, may be adopted and thereafter altered by the vote of a majority of the qualified electors of such county voting thereon, in lieu of the limitation therein before established. These limitations may be increased to an aggregate of not to exceed 50 mills on each dollar of valuation, for a period of not to exceed 20 years at any one time, if approved by a majority of the electors, qualified under Section 6 of Article II of this constitution, voting on the question.

b) NONAPPLICATION OF LIMITATION

The foregoing limitations shall not apply to taxes imposed for the payment of principal and interest on bonds or other evidences of indebtedness or for the payment of assessments or contract obligations in anticipation of which bonds are issued, which taxes may be imposed without limitation as to the rate or amount; or to taxes imposed for any other purpose by any city/village, charter county, charter township, charter authority or any other authority, the tax limitations of which are provided by charter or by general law.

c) COURT RULING

The Michigan Court of Appeals has ruled the following:

1) Any challenge to the 50 mill limitation must originate with the Michigan Tax Tribunal.
2) That an individual taxpayer could bring action because their taxes would be increased or decreased a specific amount depending upon the outcome of the litigation.
3) That the Headlee Amendment left the former 15 mill, 18 mill, and 50 mill limitation intact and merely added additional restrictions to charter millage.

d) APPLICATION

The following chart shows the application of the Limitation:

Taxing Unit	Limitation Applies	Limitation Does Not Apply
Allocated Millage	X	
Extra Voted Millage:		
School Operational	X	
School Specially Designated	X	
School Building and Site	X	
Township	X	
County	X	
Debt Retirement Millage	X	
Chartered County		X
Chartered City Millage		X
Chartered Township Millage		X
Intermediate School District:		
Special Education		X
Vocational Education (Chartered)		X
Community College (Chartered)		X
Home Rule Villages (Chartered)		X
General Law Village		X
Special Assessments i.e., fire and police		X
Authorities Created by law i.e., Peoples Community Hospital, Huron-Clinton Metropolitan Authority		X

e) LEGAL QUESTIONS

The issues involved and whether millage are subject to the 50 mill limitation provided in the first paragraph of Section 5, Article IX, of the Constitution or are subject to the non-application of the limitation are legal questions that have not been fully defined. School districts should consult legal counsel, if questions arise.

C.05 MDE GUIDANCE FOR BUDGET AND SALARY/COMPENSATION TRANSPARENCY REPORTS

STATUTORY REQUIREMENT- MCL 388.1618 (2)

Budget Transparency Guidance

LEAs and PSAs must publish all of the following data through a link on their Main Home Page. If you do not have a website, you must either develop one or work with your Intermediate School District (ISD) to report the information on the ISD website.

ISDs must publish some of the following data through a link on their Main Home Page. Specifically, ISDs must provide sections a, bi, and ci – cvii below.

For statewide consistency and public visibility, schools must use the icon badge developed by the Department. The icon must be positioned so it is immediately viewable after your Main Home Page has loaded, regardless of screen size or web browser. The size of the icon must measure at least 150 x 150 pixels. Please visit our website to download the icon.

a) **Fiscal Year 2016-2017 Board Approved Budget**: The current year board approved budget and subsequent amendments should be posted under this heading. Budgets and amendments must be detailed at the function level and include beginning and ending fund balances. Budgets and amendments must be posted within 15 days of board adoption.

bi) **Personnel Expenditures**: This pie chart for the most recently completed fiscal year is found in the Financial Information Database (FID). The pie chart should be updated within 30 days of your FID submission, no later than December 1st.

bii) **Current Operating Expenditures**: This pie chart for the most recently completed fiscal year is found in the FID. The pie chart should be updated within 30 days of your FID submission, no later than December 1st.

Please note: If you submit an Educational Service Provider file, two additional pie charts will be generated in the FID and must also be posted. Please post these pie charts under the heading Educational Service Provider Transparency Reports. Please also see Supplement 1.

ci) **Current Bargaining Agreements**: Please provide a copy of the current bargaining agreement for each bargaining unit. This item should be updated within 30 days of any changes made to the agreement.

cii) **Employer Sponsored Health Care Plans**: Please provide a copy of the plan summary document detailing the current terms of all employee medical, dental, vision, disability, long-term care, or any other type of employee benefits that would constitute health care services offered to a bargaining unit or individual employee. This item should be updated within 30 days of any changes made to the health care plans.

ciii) **Audited Financial Statements**: Please provide a copy of the audited financial statement reports for the most recently completed fiscal year. Alternatively, you may choose to provide a link to the Department's Office of Audit website. This item should be updated within 30 days of audit submission, no later than December 1st.

civ) **Medical Benefit Plan Bids**: Please provide a copy of the "4 or more" latest bids solicited from different carriers every 3 years when renewing or continuing medical benefit plans, as required in MCL 124.75.

cv) **Procurement Policy**: Please provide the district's current policy on the procurement of supplies, materials, and equipment. This item should be updated within 30 days of any changes made to the policy.

cvi) **Expense Reimbursement Policy**: Please provide the district's current policy on reimbursable expenses for employees and board members. This item should be updated within 30 days of any changes made to the policy.

cvii) **Accounts Payable Check Register – or – Statement of Reimbursed Expenses**: Please post either the district's accounts payable check register for the most recently completed fiscal year or a statement of the total amount of expenses reimbursed by the district during the most recently completed fiscal year for board members and employees. One of these reports must be posted. This item should be updated within 30 days of your FID submission, no later than December 1st.

d) **Employee Compensation Information**: Please provide a report of the total salary and a description and cost of each fringe benefit included in the compensation package for the school superintendent or Public School Academy equivalent. For schools that do not have a superintendent, this information must be disclosed for the top administrator listed in the Educational Entity Master. In addition to the above, this information must also be disclosed for all other employees whose salary exceeds $100,000. Salary is defined as Medicare wages on the employee's most current W2. This data must be all inclusive and should be data from the most recently completed calendar year. This item should be updated within 30 days of the W2 issuance, no later than March 1st.

e) **District Paid Association Dues**: Please provide a report that includes the annual amount paid by the school for association dues on behalf of the school or its staff for the most recently completed fiscal year. The report should include a listing of dues paid to each individual association at both the federal and state levels. This report should be updated within 30 days of your FID submission, no later than December 1st.

f) **District Paid Lobbying Costs**: Please provide a report that includes the annual amount the school paid for lobbying or lobbying services as defined in MCL 4.415, for the most recently completed fiscal year. This report should be updated within 30 days of your FID submission, no later than December 1st.

g) **Approved Deficit Elimination Plan**: Please provide a copy of the most recent state approved deficit elimination plan or enhanced deficit elimination plan. The entire plan must be provided. This item should be updated within 30 days of the most recent state approval.

h) **District Credit Card Information**: Please provide a report that includes the type, credit limit, authorized individual(s), authorized dollar limit(s), and last four digits of all credit cards maintained by the district as district credit cards. This report should be updated within 30 days any changes made to a district credit card.

i) **District Paid Out-of-State Travel Information**: Please provide a report that details the costs incurred for each instance of out-of-state travel by a district administrator for the most recently completed fiscal year. MCL 423.201 defines a public school administrator as “a superintendent, assistant superintendent, chief business official, principal, or assistant principal employed by a school district, intermediate school district, or public school academy.” The report should also, at a minimum, include the identification of each individual on the trip, the destination, and purpose of the trip. This report should be updated within 30 days of your FID submission, no later than December 1st.

To be in compliance with this law, all data elements defined in the statute must be available through a link on your Main Home Page in the form, manner, and time frame defined in this guidance. The font size and style for this reporting must be consistent with other documents on your website.

Each data element found in the legislation must be listed on your transparency page. If you do not have information to post for a data element, please write a line stating you do not have any applicable information to provide. Examples may be found in Supplement 1.

For new schools opening in 2016-17, data elements requiring previous fiscal year information will not be available. However, these sections must still be included on your transparency page. Please write a line stating that because this is your first year of operation, data is not available.

If you use the budget transparency tools provided by a private vendor such as Munetrix or Eidex, you do not have to maintain a separate transparency page on your school website. The transparency icon on your Main Home Page should link directly to your vendor page, where all the required data elements should be available.

Language has been added to the State School Aid Act (MCL 388.1618 Subsection 11), which imposes a state school aid penalty on those districts that do not comply with Budget Transparency.

C. STATE REQUIREMENTS

The following supplements illustrate the form and manner prescribed by the Department:

• Supplement 1: This template shows the sequence, headings, links, and narratives for the data elements. For statewide consistency and ease of use, all schools should follow this template when designing their website. It sometimes helps to see what others have done on their school websites. Please contact us using the information at the bottom of this page, and we shall recommend a school website to view.
• Supplement 2: This includes some examples of the required transparency reports.
• Supplement 3: This is a Quick Reference Sheet developed to help keep track of the data elements, information required, and the time lines for updating each element.

Questions related to this guidance and Budget Transparency may be directed to Chad Urchike at urchikec1@michigan.gov or 517-335-1261.

D.01 GENERAL

This section summarizes basic principles for accounting for funds in a federal program regardless of the purpose for which the funds are provided. Each statute authorizing a federal, state, or cooperative state federal program in education provides that the grantee is responsible for administering the program.

Most decisions on specific items for which grant funds are expended are made at the local level. However, basic decisions on use of equipment and services acquired with grant funds must be in compliance with federal and/or state requirements.

a) ACCOUNTING RECORDS

Financial administration of grant funds is reflected in the school district's accounting records. During a fiscal year, it is not uncommon for an agency to administer grants from more than one program and/or to operate two or more projects within the same program. The financial transactions of an approved project should be distinguished in the accounting records from other approved projects and identified with the federal and/or state program under which it is funded. Project expenditures should also be recorded within the function and the object classifications provided in this manual.

b) SUPPORTING DOCUMENTATION

It is essential that every entry in the accounting records refer to the documentation that supports the entry and that the documentation filed in such a way that it can be readily located. Documentation for purchases should include copies of the purchase order and/or purchase requisition, contracts, invoices, receiving reports, and canceled checks or warrants. Inventory records should be maintained for equipment items purchased.

Payroll records should provide sufficient documentation for employees engaged full time in a single activity. Official personnel actions, job sheets, and/or official assignment schedules should support employees' time when assignment is to two or more activities. These records should be substantiated periodically by after the fact reports, supervisors' reports, time studies, or other formal evidence showing that the employees actually spent the prorated portion of their time on the assignments indicated.

Certain programs require that the grantee contribute to the program. The contribution may be goods and/or services purchased from general operating funds and not necessarily recorded as program expenditures. However, the contribution must be documented as having supported the program. Such documentation may be maintained on a memoranda basis provided it is retained in accordance with applicable statute(s).

D. FEDERAL REQUIREMENTS

Each school district that operates a federal program should keep in the business office, a copy of the Code of Federal Regulations (CFR 34, parts 1 to 700) in which the regulations for federal educational programs are published. References of specific interest to school business officials are:

- Part 76 – State Administered Programs
- Part 84-298 - Innovative Education Program Strategies ESEA of 65 Title VI to assist State and Local Educational Agencies (LEA) in the reform of elementary and secondary education.
- Part 84-010 - Financial Assistance to Local Education Agencies to LEAs and Schools to improve the teaching and learning of children failing or most at/risk of failing (Title I).

Copies of the three books that comprise CFR 34, part 1 to 700 can be obtained from the Superintendent of Documents, Government Printing Office, Washington, D.C. 20402 (telephone 202-783-3238).

D.02 OVERVIEW - SINGLE AUDIT REQUIREMENTS FOR MICHIGAN SCHOOL DISTRICTS

a) INTRODUCTION

The Single Audit Act of 1984 (P.L. 98-502) was amended in 1996 (P.L. 104-156). The revised *OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations* establishes minimum audit requirements for States, Local Governments (local and intermediate school districts, including public school academies) and non-profit organizations that receive federal financial assistance and defines responsibilities for implementing and monitoring these federal requirements. In order to assist the school districts and independent auditors in meeting the Single Audit Act and OMB Circular A-133 requirements, the Michigan Department of Education (MDE) has prepared a separate document called *Michigan School Auditing Manual*. This section of the *Michigan Public School Accounting Manual* highlights only the major topics related to the single audit. For further information, please refer to the *Michigan School Auditing Manual*.

As the primary recipient of federal funds, the MDE, Office of Audits, is responsible for reviewing audits and resolving the audit deficiencies and findings in a timely manner. When audit deficiencies are discovered, school districts and/or independent auditors are contacted to resolve the deficiencies and correct the reporting. As required by the *Government Auditing Standards* and the *Michigan School Auditing Manual*, school district's corrective actions taken or planned must be included with the audit report. If the corrective actions are not included in the audit, the Office of Audits will contact the school district for management's response to the audit findings. If there are questioned costs on funds passed-through the MDE, the funds should be returned to the MDE as soon as the questioned costs are determined.

b) AUTHORITATIVE LITERATURE

Refer to the *Michigan School Auditing Manual.*

c) THRESHOLDS

Under OMB Circular A-133, the current audit threshold is $750,000 of federal expenditures. The MDE requires districts, including public school academies, that expend $750,000 or more a year of federal financial assistance to procure an audit made in accordance with Generally Accepted Auditing Standards (GAAS), Government Auditing Standards (GAS), the OMB Circular A-133, the Single Audit Act of 1984, as amended in 1996 and the *Michigan School Auditing Manual*.

School districts, including public school academies, that expend less than $750,000 a year of federal assistance, are required by the MDE to procure an audit made in accordance with Generally Accepted Auditing Standards (GAAS) and Government Auditing Standards (GAS).

d) FEDERAL ASSISTANCE

The two broad categories of federal assistance are financial and non-financial, (for example, training; USDA Entitlement and Bonus Commodities; and advisory services). School districts shall be considered to have received federal financial assistance whether such assistance is received directly (as a recipient) from a federal agency or indirectly (as a sub recipient) through a state or local government agency. In accordance with the OMB Circular A-133 (sub-section 205, *Basis for Determining Federal Awards Expended*), the determination of when an award is expended should be based on when the activity related to the award occurs.

Federal financial assistance refers to the transfer of money, property, services, etc. to a school district for carrying out a federal program in order to stimulate or accomplish a public purpose of support authorized by federal statute. The specific types of federal financial assistance provided by federal agencies are in the form of grants, contracts, cooperative agreements, loans, loan guarantees, property, interest subsidies, insurance, or direct appropriations, but not direct federal cash assistance to individuals.

e) REQUIRED REPORTS

Various reports are required at both the Financial Statements Level and the Federal Financial Assistance Level. Refer to Section A of the *Michigan School Auditing Manual* for the required reports.

f) SUBRECIPIENT MONITORING

Some Michigan school districts that receive pass-through federal grants sub grant the funds to other agencies. In accordance with the OMB Circular A-133, recipient school districts acting as fiscal agents for federal programs that provide (pass-through) federal financial assistance to sub-recipients have additional program control, financial and audit related responsibilities.

For further information on this subject, refer to Section D of the *Michigan School Auditing Manual*. Also, as required by Section B of the *Michigan School Auditing Manual*, school districts should also provide a *Schedule of Federal Financial Assistance Provided to Sub-recipient*s in the audit.

g) SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

This schedule should be prepared as required by Section B of the *Michigan School Auditing Manual*. The following matters should be considered in preparation of this schedule:

- Include all columns as required by Section B of the *Michigan School Auditing Manual*.

- For the MDE projects, the names of project, CFDA numbers, source/project numbers, approved amounts, and current year payments (which become cash receipts for the school districts) should agree with the Form R7120, Grants Section Auditors Report.

- Beginning and Ending Balances of Accrued and/or Deferred Revenue should be calculated correctly and reported for each applicable project.

- Accrued Revenue represents an excess of allowable expenditures over cash received in the current period. In other words expenditures are incurred (and revenue is recognized) in the current period, however, funding will be received in a future period.

- Deferred Revenue represents payments received from federal, state, and other sources that may be used to fund future program expenditures (federal financial assistance has been received before being earned) or, if not used, must be returned to the funding sources.

h) DISTRIBUTION OF REPORTS

As required by Section 18(2) of the State Aid Act, Financial and the Single Audit reports are due to the MDE on November 15. They must be submitted electronically to the Financial Audits website @ MDE-FinAudit@michigan.gov:

School districts failing to meet the deadline will not receive State School Aid payments until the reports are filed with the MDE.

For mailing instructions and addresses of other agencies which need the audit report, refer to Section C of the *Michigan School Auditing Manual*. For complete electronic filing instructions see the Office of Audits website at www.michigan.gov/mde. Then choose: Offices, Audits, and Guidance on Electronic Filing of Financial Statement Audits.

E.01 GASB INTERPRETATION #6 – RECOGNITION AND MEASUREMENT OF CERTAIN LIABILITIES AND EXPENDITURES IN GOVERNMENT FUND FINANCIAL STATEMENTS

Under GASB #34, liabilities are determined at two different levels: the District-wide level, and the Fund level.

1) District-wide Level Liabilities

The District-wide statements are on a full accrual basis in order to properly measure the flow of all economic resources. The District-wide Statement of Net Assets should record all obligations to third parties as soon as they are incurred, regardless of the timing of the cash flow. The accounting literature provides only a few examples of obligations that are not to be recorded as a liability:

Commitments to purchase goods or services in the future;
- Obligations to pay future pension benefits or retiree health care benefits;
- The portion of contingent liabilities that is not probable of payment or not estimable.

2) Fund Level Liabilities

Fund level statements are on the modified accrual basis. The purpose of modified accrual accounting is to measure flows of current financial resources.

GASB Interpretation #6 clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or potentially could arise, in interpretation and practice.

In the absence of an applicable accrual modification, as described in the next paragraph, governmental fund liabilities and expenditures should be accrued at the time they are incurred. Liabilities that governments normally pay in a timely manner and in full from expendable available financial resources, (for example, salaries and utilities) should be recognized when incurred, without regard to the extent to which resources are currently available to liquidate the liability.

The GASB recognizes that certain specific long-term indebtedness should be reflected at the Fund level only when it comes due for payment, rather than when it is incurred. This "accrual modification" applies to the following specific liabilities:

- Long term scheduled indebtedness (such as bond issues, leases, etc.)
- Compensated absences (such as sick and vacation pay)
- Claims and judgments (such as self insurance, contingencies)
- Pensions contributions
- Landfill closure and post-closure costs (which should never involve a school district)

Liabilities for compensated absences, claims and judgments, special termination benefits, and landfill closure and post-closure care costs are "normally expected to be liquidated with expendable available financial resources" at the point in time that they MATURE each period. The accumulation of financial resources in a governmental fund for eventual payment of unmatured liabilities (for example, compensated absences) does not constitute an outflow of current financial resources or result in recognition of an additional governmental fund liability or expenditure. (i.e. a governmental fund may have accumulated a healthy fund balance, but the liability must also "MATURE" to be recognized as a current liability.)

The following table presents several examples of different types of liabilities.
Note: GASB Interpretation #6 is effective at the same time the District adopts GASB #34.

The following table includes several examples of different types of liabilities, including "normal operating transactions/regular liabilities" and "special rule liabilities"

Type of Account	Governmental Fund Liability in Fund Level Statements	District-Wide Statement Liability	Comments
	Modified Accrual	Full Accrual	
Accounts Payable - Utilities / Purchased Services	X	X	Normal operating transaction: liability is to be recorded when services have been performed or goods received.
Accounts Payable - Retainage on construction contracts	X	X	Normal operating transaction: liability is to be recorded when services have been performed or goods received. Note: In rare instances, this could be considered a contingent liability IF it is uncertain whether this will be paid.
Accrued Payroll – wages /salaries INCLUDING 26 pay teachers	X	X	Normal operating transaction: liability is to be recorded when services have been performed.
Accrued liabilities related to payroll (payroll taxes; MPSERS, etc. – NOT employee fringe benefits)	X	X	Normal operating transaction: liability is to be recorded when services have been performed.
Health, dental, vision insurance – fully insured, INCLUDING 26 pay employees coverage	X	X	Normal operating transaction: liability is to be recorded when services have been performed. "Services" refer to the employee providing a 'service' to the district and therefore earning the insurance coverage. For 26 pay employees, they have earned the coverage by June 30.
Health, Dental, Vision Care – Self Insurance & Workers Compensation – Self Insurance Claims incurred AND reported to district by third-party administrator (TPA) through June 30	X	X	Special rules liability – This comes under the "claims and judgments" exception. Amounts should be recorded in a governmental fund for those health care services that have matured by June 30. For those districts using a third party administrator, this would be the June invoice (reimbursing the TPA for payments made through June 30).

Type of Account	Governmental Fund Liability in Fund Level Statements	District-Wide Statement Liability	Comments
	Modified accrual	Full accrual	
Health, Dental, Vision Care – Self Insurance & Workers Compensation – Self Insurance Claims incurred AND reported to district by TPA AFTER June 30 (even if related to 26 pay employees)		X	For Fund level governmental fund liabilities - The claims that may be incurred in July & August for 26 pay employees have NOT come due for payment by June 30 and thus are NOT a liability at June 30 and IBNR estimates are NOT a liability at June 30.
Early Retirement Incentives (ERI) paid on payment dates specified in an agreement after year-end		X	If there is a legally enforceable due date, then that is the date to recognize the liability in the governmental fund. Until then, the liability is recordable only in the District-wide Statements.
ERI with no formal specified due date	X if retirement date prior to year end	X	Recognize this liability on the retirement date. Note that this is still the case even if the District's practice is to pay this several months after year-end.
Compensated Absences – vested vacation/sick for current employees		X	No sick or vacation liability will exist at year-end for current employees! Record a liability in the governmental funds at the time it comes due for payment. For current employees, record sick and vacation at the time the days are taken.
Compensated Absences – vested vacation/sick for terminated employees	X if retirement date prior to year-end	X	For terminated employees, record the vested sick and vacation at the retirement date (possible exception – if there is a union contract or legally enforceable document that sets a date for payment of vested benefits, then that date is the appropriate time to recognize the liability).

E.02 GASB #33 ACCRUAL OF REVENUES IN GOVERNMENTAL FUNDS

Receivables and revenues should be recognized on a full accrual basis at the District wide level, and for all proprietary and fiduciary funds. GASB Statement #33 provides the recognition rules for non-exchange transactions, as follows:

- For transaction taxes (sales tax, fuel tax…), recognize revenue when the transaction occurs
- For property taxes, recognize the revenue in the period levied
- For all other taxes and fees, recognize revenue when there is an enforceable legal claim or the cash is received (unless there are time requirements)
- For grants, donations & entitlements (i.e., any resources that we do not impose on others) recognize revenue when all eligibility requirements are met

In addition, GASB #33 modified the **revenue recognition rules for governmental funds**. These funds are on a modified accrual basis and can only recognize revenue if it meets the "availability" criterion. "Available" means the revenue is collected either during the year, or soon enough after the end of the year that it can be used to pay liabilities of the current year.

Prior to GASB #33, there was an exception for expenditure driven grants which could recognize revenue as soon as the expenditures were incurred, without being subject to the "availability" test. Because GASB #34 has now defined fund balance as "current financial resources," this exception is now removed. A grant receivable that is not collected until three months after the year-end is generally not available (see last paragraph) and should not be counted as a current financial resource at year-end.

Further, GASB #38 requires that Districts disclose the time period of availability (that is, the number of days after the end of the year during which collection of revenues is considered to be available). In general, this period would be at least 30 days, and would generally be no more than 60 days. There could be some exceptions to this rule, if there is good cause. One example would be an industry that generally does not have a payables cycle of 30 to 60 days. It should be noted that because this is a possibility, the basis for conclusions of GASB #38, paragraph 42, states that the length of time during which revenues are considered available would typically fall between thirty days and one year. At the end of the year, Michigan school districts normally have accounts payable and accrued payroll, which are paid within 60 days of year-end. Thus, a district's revenue policy generally would not extend much beyond 60 days.

E.03 ACCOUNTING FOR THE RECOVERY OF INDIRECT COST

Indirect Costs are defined as costs that are incurred for the benefit of more than one cost objective, but are not readily assignable to any program. Indirect costs serve common or joint purposes, and to identify the specific program or project served would take an effort disproportionate to the results achieved.

Each spring MDE sends Michigan public school districts preliminary indirect cost rates calculated using financial information taken from the district's prior year Comprehensive Annual Financial Report (FID). Some of the most common types of indirect costs for a district include auditing, accounting, payroll, human resources and purchasing. The MDE uses the FID amounts reported under Business Services (function 25x), Operations and Maintenance (function 26x) and Central Services (28x) when calculating the indirect cost rates. Districts must either confirm the preliminary rate calculated by the MDE or submit an application to adjust the rate. In order to recover indirect costs for the administration of federal grants, Michigan public schools must have a Michigan Department of Education approved indirect cost rate on file.

Problems in Accounting for Indirect Recovery:

- The costs that make up the indirect cost pool and subsequent indirect cost pool are from a prior year.
- If districts credit the expenditures that make up the indirect cost pool, future indirect cost rates will be lower.
- Costs for administration and operations and maintenance used to compute the indirect cost rate are recorded in the general fund while the grants are often accounted for in special revenue funds. There is no matching of revenues to expenditures for those costs.
- Districts prefer to have a direct match of revenues associated with expenditures.

Recommendation:

Our recommendation is to use the Fund Modification function "6xx" then an object code "9990" to record indirect charges at the end of an accounting period.

The recommended expenditure accounting entry would look like this:

Fund, Transaction Code, Object, Grant Code)

Debit	11-1-611-9990-6013	$10,000
Debit	11-1-611-9990-6213	$5,000
Debit	11-1-611-9990-7623	$2,000
Debit	11-1-611-9990-7653	$3,000
Credit	11-1-611-9990-0000	$20,000

This would allow districts to bill the particular grant for its fair share of indirect costs without affecting the actual costs that make up the indirect cost pool.

The recommendation for accounting across funds would be similar, but would include a transfer from the fund reimbursing the general fund for the indirect. The recommended accounting entry would look like this:

(Fund, Transaction Code, Function Code/Major Class, Object/Suffix, Grant Code)
Debit 25-1-611-9990-8513 $30,000
Debit 25-1-611-9990-8503 $5,000
Debit 25-1-611-9990-8523 $2,000
Credit 25-2-101-0000-0000 $37,000
To record the School Lunch Reimbursement of Indirect Costs in the Food Service Fund
Debit 11-2-101-0000-0000 $37,000
Credit 11-0-625-9990-0000 $37,000
To record the School Lunch Reimbursement of Indirect Costs in the General Fund

Applying the Rate to a Grant:

The federal government has determined that some direct costs will distort the indirect cost pool, and therefore must be excluded in part from the calculation of indirect cost rates. Typical exclusions include: capital outlay, debt service, judgments, fines and penalties, bad debts, election expenses, food for food services and items purchased for resale, purchased services contracts in excess of $25,000, and flow-through grants.

The purchase service contracts over $25,000 have caused some confusion. As an example, if a district chooses to contract with an outside vendor to provide transportation services, the district no longer handles payroll for bus drivers or the payment of invoices to a fuel supplier. Therefore, it could be considered distorting for the entire cost of the contract to be included in the direct cost pool. Leaving the entire contract cost in the direct costs used in calculating the rate, would have the effect of lowering the indirect cost rate as - In very general terms, the rate is calculated by dividing indirect costs by the direct cost base. In order to address these distorting costs, the district is to request an exclusion (when applying for the indirect cost rate through MDE) for the amount of any contracted service in excess of $25,000 that impacts the direct cost base. This rule is not intended to reduce the rates, therefore it does not apply to functions that are included in the numerator, or indirect side of the equation. In other words, you may include the full cost of purchased services related to functions that make up the **indirect cost/numerator**.

To be consistent, districts only apply the indirect rate to the first $25,000 of any contract related to a federal grant. This general principle applies to all costs that are excluded from the indirect cost rate calculation. If the cost is excluded from the rate calculation, the district should not apply an indirect rate to that grant related cost

For example:

The direct base for a typical school meals program might include salaries ($300,000), benefits ($60,000), supplies ($10,000) (excluding food and products for resale), and the first $25,000 of any school meals related contract. The district's approved unrestricted indirect cost rate (12%) could be applied to that direct base ($395,000 direct base x .12 indirect cost rate = $47,400 indirect costs attributable to the school meal program.)

The total school meal grant costs will be the sum of the direct cost base plus excluded costs attributable to the grant, plus the indirect costs attributable to the school meal grant.

Steps in the Indirect Cost Pool Application Process:

- Indirect costs incurred and recorded in the districts accounting records
- Submission of the Comprehensive Annual Financial Report (FID)
- MDE Calculation of an Indirect Rate based on FID
- Recovery of indirect from federal program (Applying the approved rate to the grant, entering the accounting as indicated above, and drawing the grant funds).
- Submission of cost reports including the grants share of indirect cost
- Process begins again.

E.04 REPORTING REQUIREMENTS FOR DISTRICTS WITH A DEFICIT FUND BALANCE

Both the Uniform Budgeting and Accounting Act (MCL 141.435) and the State School Aid Act (MCL 388.1702) prohibit a district from adopting a deficit budget and incurring an operating deficit in a fund during a fiscal year. Section 102 of the State School Aid Act requires that a district with a deficit fund balance submit a plan to the Michigan Department of Education for the elimination of the deficit. The plan must project the elimination of the deficit not later than the end of the second school fiscal year after the deficit was incurred. The plan must be approved by MDE.

Statute Requirements
The following are excerpts from MCL 388.1702 regarding prohibition of deficit budgets or operating deficits; plans to eliminate deficits; and the withholding of state aid payments:

(1) If a district or intermediate district is required to submit a deficit elimination plan under section 1220 of the revised school code, MCL 380.1220, and the district or intermediate district fails to submit a deficit elimination plan or the deficit elimination plan is not approved, the department may withhold some or all of the money payable to the district or intermediate district under this article, in an amount the department determines necessary to incentivize the district or intermediate district to eliminate the deficit, until the district or intermediate district submits to the department for approval an amended budget for the current school fiscal year and a deficit elimination plan in the form and manner prescribed by the department or until the deficit elimination plan is approved by the department, as determined by the department.

(3) If a district or intermediate district is required to submit an enhanced deficit elimination plan under section 1220 of the revised school code, MCL 380.1220, the state treasurer may withhold some or all of the money payable to the district under this article, in an amount the state treasurer determines necessary to incentivize the district or intermediate district to eliminate the deficit, until the district or intermediate district submits to the state treasurer for approval an approved budget for the current school fiscal year and an enhanced deficit elimination plan in the form and manner prescribed by the department of treasury under section 1220 of the revised school code, MCL 380.1220, or until the enhanced deficit elimination plan is approved by the department of treasury, as determined by the department of treasury. The state treasurer shall release money withheld under this subsection after the department of treasury approves the enhanced deficit elimination plan for the district or intermediate district. To assure greater coordination and effective partnerships in the development and implementation of an enhanced deficit elimination plan, when administering this subsection, the department of treasury shall consult with all of the following:

(a) The department.

(b) The chief administrative officer of the district or intermediate district required to submit an enhanced deficit elimination plan under section 1220 of the revised school code, MCL 380.1220.

(c) For a district required to submit an enhanced deficit elimination plan under section 1220 of the revised school code, MCL 380.1220, the intermediate superintendent of the intermediate district in which the district is located.

(4) An allocation to a district or intermediate district under this article is contingent upon the district's or intermediate district's compliance with this section.

Following is the MDE procedure for identifying, monitoring, and reporting on districts with a deficit fund balance:

A district is considered to have a deficit fund balance if it has adopted a deficit budget or incurred an operating deficit as evidenced by the following;

> 1) Its Total General Fund balance is negative or projected in the budget to be negative at the end of the current fiscal year;
> 2) or other funds have negative balances or projected negative fund balances that are greater than the Total General Fund balance

Upon discovery of an operating deficit or adoption of a deficit budget by a district the Michigan Department of Education (MDE) will notify the district of its obligation to submit a deficit elimination plan (DEP) to MDE. The DEP is due 30 days after the MDE notification or 30 days after the state school aid budget is passed, whichever comes later.

The MDE will immediately withhold State School Aid payments from:

1) A district that fails to meet the MDE deadline for submission of a DEP, **or**

2) A district that meets the deadline for submission of the DEP but the plan is un-approvable as evidenced by:
    - i) the plan is missing required information (approved budget, spreadsheet detail, narrative, etc.);
    - ii) information related to the revenues and expenditures reported within the DEP is not reasonable or verifiable;
    - iii) a deficit that increases rather than decreases in any subsequent year;
    - iv) the deficit is not eliminated within two years of its inception, unless the district has a Superintendent of Public Instruction (SPI) approved extension for extenuating circumstances
        - (1) The MDE’s policy is to grant no more than three additional years to eliminate the deficit, matching the hardship period in 388.1615(2);
    - v) the district failed to implement the terms of a previously submitted deficit elimination plan
        - (1) There may be extenuating circumstances that will be taken into consideration when evaluating 2)v). Examples of these circumstances include:
            - (a) unforeseen extreme reductions in enrollment
            - (b) unforeseen reductions in the state foundation (e.g. mid-year proration)
        - (2) These and other similar circumstances may cause the district to violate certain items in 2)v) above. The SPI may, at his/her discretion, waive the violations in light of the particular circumstances.

3) A district that, after having its DEP approved, fails to submit monthly Budgetary Control Reports.

The district will continue to receive state aid payments unless they meet 1), 2), or 3) above.

For districts falling into 2) above; MDE will allow the district two weeks from the date of follow-up correspondence from MDE to address the issues and submit a revised plan. The MDE will withhold State School Aid payments from any district that fails to submit a revised, approvable plan within two weeks of the MDE correspondence. The SPI may approve an extension of the MDE deadline.

The Department of Education is responsible for maintaining statewide summary information on deficit districts. This includes:

a) A list of deficit districts prepared or revised monthly for distribution to:
- Superintendent of Public Instruction
- Director of State Aid and School Finance
- Treasury, Municipal Finance

b) Not later than March 1 of each year, the Department prepares a report of deficits incurred by districts and intermediate districts in the immediately preceding fiscal year and the progress made in reducing those deficits. After approval by the State Board of Education, the report is submitted to the standing committees of the legislature responsible for k-12 education legislation, the appropriations subcommittees of the legislature responsible for k-12 education appropriations, the house and senate fiscal agencies, the state treasurer, and the department of management and budget. The department also submits interim reports as necessary.

c) Deficit district information is published on the MDE website and may be found by clicking <u>here</u>.

Office of State Aid and School Finance staff monitor districts that may require further financial analysis. Criteria for selecting deficit districts requiring further financial analysis and possible action pursuant to PA 436 of 2012:

1) District has been deficit for three or more consecutive years (including the current year, and
2) District has been deficit for five or more of the past ten years, and
3) District’s existing deficit is greater than 5% of general fund revenues excluding incoming transfers, and
4) District has shown unsatisfactory progress in eliminating the deficit. This is determined by identifying one or more the following conditions:
    - a deficit increase from the previous year
    - lack of cooperation from the district in submitting reliable deficit information.

E.05 FUND BALANCE

a) DESCRIPTION AND NATURE OF TRANSACTIONS

Beginning with fiscal years ending after June 30, 2010; GASB #54 requires that governmental entities, including Michigan public schools, classify fund balances that "comprise a hierarchy based primarily on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent." Fund balance is required to be presented based on the most restricted (non-spendable) to the least restricted (unassigned) classification.
Following are the fund balances classifications and definitions as prescribed by GASB:

Non-Spendable - (Major Class Code 71x) - This class of fund balance represents those assets that are not available in a spendable formation. Some examples would include inventories and pre-paid expenditures. Two other examples are given by GASB but will see limited use by school districts; long term receivables not expected to be converted to cash in the near term and corpus of a permanent fund.

Restricted - (Major Class Code 72x) –This class of fund balance represents amounts constrained to being used for a specific purpose by external parties, constitutional provisions, and enabling legislation. Examples include Bonded Capital Projects, Debt Service Funds established for voter approved debt millage, School Food Service Revenues associated with National School Lunch programs, and Special Education Millage.

Committed- (Major Class Code 73x) – This class of fund balance represents amounts constrained on use imposed by the government itself using its highest level of decision making authority (local school board resolution). The decision may be reversed in the same manner as it was initiated. The action to "commit" fund balance should be taken prior to the end of a given fiscal year, though the exact amount may be determined subsequently.

Assigned- (Major Class Code 74x) –This class of fund balance represents amounts intended to be used for specific purposes. The intent is expressed by the governing body, the finance committee, or the official authorized by the governing body. Residual amounts in governmental funds other than the general fund are assigned. An appropriation of the existing fund balance to cover current year expenditures is considered an assignment of fund balance.

Unassigned- (Major Class Code (75x) – This class of fund balance represents the remaining fund balance after non-spendable, restrictions, commitments, and assignments. This class only occurs in the general fund, except for cases of negative/deficit fund balances. Those are always reported as Unassigned, no matter which fund.

b) FINANCIAL STATEMENT PRESENTATION AND DISCLOSURE

**Changes in Fund Balance

GASB Cod. Sec. 2200.009 requires the presentation of “change in fund balances”. That information may be presented on a “combined statement of revenues, expenditures, and changes in fund balances”. The fund balance reconciled in that statement is the total fund balance.

Fund Balance of Funds Other Than the General Fund

Districts establish special revenue, debt service, and capital projects funds to account for resources that are restricted and committed to a particular activity. For that reason, those funds will generally not be categorized as “unassigned.” The exception would be a deficit fund balance, which is always reported as “unassigned” no matter the fund type. Only the general fund may utilize the unassigned classification for a positive fund balance.

E.06 ACCOUNTING FOR INTERNAL SERVICE FUNDS

An Internal Service Fund (ISF) is a form of Proprietary Fund. The accounting and reporting for these funds is on a full accrual basis.

An Internal Service Fund may be used to account for activities that involve the school district providing goods or services to other funds or activities of the district on a fee basis. Because proprietary funds are accounted for differently than traditional governmental funds, we encourage districts to consult with their school district auditor before establishing an internal service fund.

The ISF should charge the governmental funds for goods and services on a "cost reimbursement basis." Implicit in this requirement is the understanding that the obligations of the ISF must be currently fully-funded on the full accrual basis - That is the ISF should not report a deficit fund balance and must accrue all of its long-term obligations. The full cost of its services should be estimated and charged to the governmental funds each year.

The ISF records amounts charged to other funds as revenue for services provided, and records expense for the cost of those services. The governmental funds must report amounts paid to the ISF as expenditures in the appropriate function. Accordingly, this revenue and expenditure will be eliminated during the government wide consolidation of the Statement of Activities under GASB #34 to eliminate double reporting of the grossed up revenue and expenditure.

The Michigan chart of accounts and Financial Information Database (FID) do not allow for inter-fund transfers to be made to or from internal service funds. All transactions between the ISF and governmental funds must be reported in revenue and expenditure accounts for FID. This is necessary to avoid double counting of revenue and expenditure when the State of Michigan performs consolidated reporting for districts.

Use of Internal Service Funds is optional.

Districts use the funds to accomplish specific goals:

- To pool the costs of activities which benefit multiple funds in one location for accounting purposes.
- To allow governmental funds to recognize the current impact on expenditure and fund balance of funding long-term obligations.
- To ensure that long-term obligations are funded currently so that future shortfalls do not occur.

Examples of School District Internal Service Funds

- Severance obligations and early retirement incentives
- Fringe benefits
- Risk management activities
- Bus fleets
- Data services

Challenges in using an Internal Service Fund

- Use of an ISF creates additional complexity in accounting matters and could result in increased costs
- The decision to use an internal service fund should consider long-term consequences. A District should not establish an ISF for a short period of time and then return to traditional funding for those same costs.
- The implications of full-accrual accounting may not be widely understood by all financial statement users, including those making budget decisions.

Sample Journal Entries Related to Internal Service Fund

Example 1 Facts:
- School District entered into an Early Retirement Incentive (ERI) program with its teachers and administrators.
- Agreement entered into 5/01/06
- District makes monthly payments of $20,000 made to 403(b) for 60 months beginning 9/01/06
- Liability calculated at $1,080,000 at 06/30/06 per GASB #47.

Journal Entries for Example 1

Establish Liability in Internal Service Fund:
DR ERI Expenditure (81-259-2210) $1,080,000
CR ERI Payable (81-461-0000) $1,080,000

Charge Governmental Fund for Services Governmental Fund:
DR Various Expenditure Accounts Based on Employees Function, object code 2210 Total $1,080,000
CR Cash/Due to Other Funds Total $1,080,000

Record Revenue in Internal Service Fund:
DR – Cash/Due from Other Funds Total (81-101/131-0000) $1,080,000
CR – Revenue Services Provided Other Funds (81-197-0000) $1,080,000

Monthly Payment to 403(b)
DR ERI Payable (81-461-0000) $20,000
CR Cash (81-101-0000) $20,000

Example II Facts

- School District runs its bus fleet through an Internal Service Fund
- Charges other funds monthly for services

Journal Entries for Example II

Pay Recurring Transportation Costs in Internal Service Fund:
DR Transportation Expense (81-271-xxxx) $
CR Cash (81-101-0000) $

Record Depreciation Expense in Internal Service Fund:
DR Depreciation Expense (81-711-7710) $
CR Accumulated Depreciation (81-262-0000) $

Charge Governmental Fund for Services:
Governmental Fund
DR Expenditures (XX-271-31xx) $
CR Cash/Due to other Funds (XX-101/411) $
Record Expenditures in the Governmental Fund

Record Revenue in Internal Service Fund:
DR Cash/Due from Other fund (81-101/131-0000) $
CR – Revenue Services Provided Other Funds (81-197-0000) $

E.07 ACCOUNTING FOR ADVANCE REFUNDING OF LONG-TERM DEBT

Advance refunding of long-term debt affects not only the Debt Retirement Fund, but also the General Long-Term Debt Account Group. The transactions must also be disclosed in the school district's Annual Financial Report. A district must be cognizant that advance refunding of debt may create an arbitrage condition during the interim between receipt of funds from the new bond issue and the actual date when the funds are disbursed and the old bond issue liquidated. An example of arbitrage would be selling new bonds with a lower interest rate than the outstanding bonds and collecting interest on the proceeds of the new bonds for a period of time before the refunding takes place.

There are prescribed procedures that must be adhered to when proceeding with the refunding of a bond issue involving irrevocable trusts and restrictive types of investment securities of the refunding bond proceeds.

The uniqueness of this type of transaction recommends that the school district consult with bond counsel and auditors to insure legal compliance and proper accounting of the bond transaction.

Below is an example of an accounting transaction for advance refunding of debt. It should be noted that this is just one example. There may many others. You should refer to authoritative governmental accounting literature for specifics.

Example: The school district intends to refund bonds totaling $4,055,000 on May 1st. Proceeds of $4,010,000 from the refunding will be received on February 15th. The district has been advised to put these funds into an escrow account to earn interest.

Debt Service 1993 Fund (Fund 32)

2/15/xx Proceeds are placed in escrow:		
32-181-0000 Investments-Escrow	$4,010,000	
32-596-0000 Proceeds from Bond Refinancing		$4,010,000
5/01/xx Interest Earned from February 15th to May 1st		
32-181-0000	$ 45,000	
32-151-0000		$ 45,000
05/01/xx Old Bonds are Paid Off		
32-512-7320 Payments to Bond Escrow Agent	$4,055,000	
32-181-0000 Investments-Escrow		4,055,000

E.08 SALE OF SCHOOL PROPERTY

Districts should contact Bond Counsel for determining the distribution of proceeds from the sale of property purchased with bond proceeds.

E.09 TAX-EXEMPT INTEREST INFORMATION AND REBATE ARBITRAGE REQUIREMENTS

a) DESCRIPTION OF THE ISSUE

School districts that issue debt obligations must comply with *Information and Rebate-Arbitrage Requirements* of the Internal Revenue Service. The following is a brief discussion of the requirements that a school district must be concerned with when issuing debt.

Under the Internal Revenue Code of 1986, all issuers of tax-exempt obligations must report certain information about bonds to the Internal Revenue Service. The reporting forms may be obtained from the IRS. "Obligations" for purposes of these reporting requirements include tax-exempt bonds or debt obligations of a governmental unit such as State School Aid and tax anticipation loans, installment purchase agreements, or finance leases.

b) REBATE - ARBITRAGE

The "Rebate" provision (Section 148 of the Internal Revenue Code of 1986) requires governmental issuers such as school districts to pay to the federal government a portion of arbitrage earned on funds derived from tax exempt debt. With certain stated exceptions, the requirement applies to all tax exempt bond and note issues. The code provides that failure of an issuer to rebate causes the loss of federal tax exemption or subjects the issuer to substantial penalties and interest.

It is advisable that a determination of the rebate amount be made at least every year. The amount required to be paid to the United States for such period, including the earnings thereon, must be set aside each year in a rebate fund. The general rebate requirement is that the school district compute its arbitrage for successive five-year periods beginning with the date of issuance and must pay at least 90% of the arbitrage to the federal government within 60 days of each computation period (*ABC's of Arbitrage*, 2002 edition, State and Local Government Law Section, p. 207 American Bar Association).) Generally, rebate payments to the IRS cease after the construction fund or proceeds of the obligation have been entirely spent.

It is critical that issuers establish and maintain the accounting and other administrative procedures to insure compliance with the federal requirements.

At the time of the rebate payment, a legal opinion may be required that the calculations of the amount of the rebate have been made in compliance with provisions of the Internal Revenue Code.

Transactions of this type should be reviewed with the school district's bond counsel and auditors to insure legal compliance and proper accounting of the IRS Information and Rebate-Arbitrage requirements.

E.10 TRANSACTIONS FOR RECORDING ENERGY CONSERVATION IMPROVEMENT CONSTRUCTION PROJECTS

a) DESCRIPTION OF THE ISSUE

A local school district or an intermediate school district may pay for energy conservation projects from operating funds of the school district or from the proceeds of bonds or notes issued for energy conservation improvements, or may enter into contracts in which the cost of the energy conservation improvement is paid from the savings which result from such improvements. This may be done without approval by voters of the district. The main accounting concerns of the school district are:

- Which fund should be used to account for such transactions?
- How should these be recorded in the financial statements?

It is recommended that the proceeds from the issuance of energy bonds, notes and other forms of obligations along with energy project related investment interest earnings be recorded in a capital projects fund. The energy project expenditures should also be reported in a capital projects fund. Act 22 of the Public Acts of 1998 allows school districts to use the capital projects fund to facilitate accountability for energy conservation projects.

The general fund should be used to account for payments on energy bonds and notes. An alternative would be to establish a debt service fund. However, this would require a transfer from the general fund to make the debt service payments.

b) REFERENCE

Please refer to Section III. Sub-section C.05 of this manual for a series of sample accounting entries that reflect Energy Conservation Improvement Projects. Public Act 22 of 1985 deals with Energy Transactions.

E.11 SPECIAL REVENUE FUNDS FOR SPECIAL EDUCATION CENTER PROGRAMS, COOPERATIVE ACTIVITIES, AND COMMUNITY SERVICE ACTIVITIES

a) DESCRIPTION OF THE ISSUE

Inclusion of certain revenue and expenditure items in the General Fund tend to overstate the measures traditionally used to compare educational costs between K-12 school districts. In an attempt to alleviate this comparability problem the Bulletin 1022 Referent group recommends moving some of these revenues and expenditures from the General Fund to a Special Revenue Fund. The options are as follow:

- Districts that operate special education center programs may report such revenues and corresponding expenditures in special education fund section of the Comprehensive Annual Financial Report (FID).

- Districts that operate significant cooperative activities like educational or purchasing consortia may choose to maintain a special revenue fund titled the Cooperative Activities Fund.

- Non-educational Child Care Fees, Museums, Theaters, Community Recreation Centers, Senior Citizens Activities, Public Libraries may be reported in the Community Service Fund.

- Intermediate districts levying an enhancement millage that is passed on to local districts

According to GASB #54 Special Revenue funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditures for specified purposes other than debt service or capital projects. The term "proceeds of specific revenue sources" establishes that one or more specific restricted or committed revenues should be the foundation for a special revenue fund.

b) MANDATORY REPORTING

State reporting for the Center Program revenues and expenditures in Special Education Funds and reporting of the items listed above in the special revenue fund is mandatory, if significant. Significance will be decided by each school district. One suggestion to determine significance is whether the inclusion of these items in the general fund has a notable effect on per pupil revenues and expenditures. In summary, districts must use the special revenue fund or special education fund, as explained above, if the amount involved is significant to the district's per pupil revenues and expenditures.

c) QUESTIONS AND ANSWERS

Q- 1 The General Fund contains assets and liabilities related to enrichment and child care programs. Must these be moved to the special revenue fund when the accounting treatment changes?

A-1 As indicated above, a special revenue fund should only be established when a substantial portion of revenues will be derived from restricted revenue sources. If the revenues for the fund are derived from restricted revenue sources and the local school district board/administration concurs; a Community Service Fund may be established.

Q-2 May (or should) the salary and fringes of the adult education director be prorated between the general fund and special revenue fund if certain community service activities are moved to the special revenue fund?

A-2 From an accounting standpoint, it should be prorated.

Q-3 When should an athletics fund be established as a special revenue fund?

A-3 An athletic fund should be considered a special revenue fund if it derives a substantial portion of its revenue from foundation, pay to participate, or gates receipts. In other words, it may be considered a special revenue fund if it does not primarily rely on the general fund for support.

d) STATE REPORTING

Accounting for Special Fund Revenue

Use the appropriate local revenue category (Major class codes 161-181) to record revenues collected from any sales of food, merchandise, tickets, gate receipts, and admissions.

Use Major Class Code ”192-Private Sources” to record private and local grants, along with donations.

E.12 DISCUSSION OF SUPPLIES AND EQUIPMENT CLASSIFICATIONS

A school district can take two basic approaches to distinguish between supplies and equipment:

- adopt a predetermined list of items, classifying each entry as either a supply or an Item of equipment; or

- adopt a set of criteria to be used in making its own classification of supply and equipment items.

Several publications have provided detailed lists of material items used in school district operations, identifying each entry as either a supply or equipment item. These lists have been helpful to many users, but they have at least four inherent drawbacks:

- Various state and federal aid programs offer supply/equipment categorizations which conflict with one another;

- Technological and philosophical changes in education continue to occur at an ever increasing pace. It is impractical to list and classify the thousands of materials and devices used in districts today, particularly in the vocational education curricula. Therefore, without periodic updates, supply/equipment lists quickly become obsolete;

- Classifications of certain items change, due to changes in price and technology. For example, most districts classified hand-held mini calculators as equipment several years ago when they cost over $100. Now that the price of these items has dropped to the $5 to $25 range, many districts are changing the classification of these items to supplies.

- Users tend to treat the lists as comprehensive and up to date, even when warned otherwise.

For these reasons, developing a universally applicable and easily updatable supply/equipment list is impractical. Instead of presenting a list which might raise as many issues as it would propose to resolve, it is suggested that the distinction between supplies and equipment can better be made through consistent, statewide application of uniform criteria.

CRITERIA FOR DISTINGUISHING SUPPLY AND EQUIPMENT ITEMS

Federal, state and local laws/regulations present conflicting criteria for distinguishing between supplies and equipment. The criteria below are based on a combination of the most practical guidelines from these sources. Unless otherwise bound by federal, state or local law, districts should use these criteria in their supply/equipment classification decisions. In cases where the distinction is unclear, the district, as always, should apply reason and good judgment in making its decision.

a) EQUIPMENT ITEMS

An equipment item is any instrument, machine, apparatus, or set of articles which meets ALL of the following criteria:

- It does not lose its identity through fabrication or incorporation into a different or more complex unit or substance;
- It retains its original shape, appearance, and character with use;
- It is nonexpendable; that is, if the item is damaged or some of its parts are lost or worn out, it is more feasible to repair the item than to replace it with an entirely new unit;
- Under normal conditions of use, including reasonable care and maintenance, it can be expected to serve its principal purpose for at least one year and is not consumed in use;
- Its cost may also affect the decision. If the item costs less than an established, predetermined amount, then it is treated as a supply expense.

b) SUPPLY ITEMS

An item should be classified as a supply if it does not meet ALL the stated equipment criteria.

ILLUSTRATION

In an effort to resolve the need to differentiate supplies and equipment without exhaustive lists, the following flowchart provides a set of criteria for distinguishing equipment from supply items, listed in priority order. At the first "NO", the item is declared to be a supply, not equipment. This criteria was adapted from the federal *Financial Accounting for Local and State School Systems, 2003 Edition.*

(Listed in Priority Order) At first question answered with a "No" - Item is declared to be Supply rather than Equipment.

A. Lasts more than one year? NO (Supply)
YES
B. Repair rather than replace? NO (Supply)
YES
C. Independent unit rather than being incorporated into another unit item?
NO (Supply)
YES
D. Retains original shape and appearance? NO (Supply)
YES
E. Exceeds arbitrary or predetermined cost amount, mandated by district, state or other governmental unit? NO (Supply)
YES
EQUIPMENT

E.13 CAPITAL PROJECTS FUND (FORMERLY BUILDING AND SITE FUND)

DESCRIPTION OF ISSUE

The Bulletin 1022 *Michigan Public School Accounting Manual* (*Manual*) has been revised to delete the title, "Building and Site Fund" and replace it with the term "Capital Projects Fund" (CPF). CPF is a term used in governmental accounting for municipalities and is being adopted to help clarify school district accounting.

DISCUSSION

The basic concept of the old Building and Site Fund is that school districts need a fund other than the General Fund to account for monies used to purchase and/or develop school sites, and the construction or renovation of school buildings. The *Manual* previously used the term "Building and Site Fund" to describe this fund. There was considerable confusion caused by using the term "Sinking Fund" interchangeably with the term "Building and Site Fund." Section 380.1212 of the School Code provides for a "Sinking Fund." This "fund" is actually a subset of the old Building and Site Fund, as are the many other capital projects funds established to provide a basis of accountability for resources provided for a particular purpose.

In order to alleviate some of this problem, the Department of Education has renamed the Building and Site Fund as the "Capital Projects Fund." A Capital Projects Fund may have the following sources of revenue:

- Proceeds of Bond Issues - such proceeds may be deposited in a capital projects fund. The funds are then used as needed for the purposes specified in the bond issue approved by the voters.

- Sinking Fund Millage - As described in section 308.1212 of the School Code, local school districts may levy up to five mills, the proceeds to be used for purchase of real estate for sites for, the construction or repair of school buildings

- Transfers From the General Fund - Section 18.2 of the State School Aid act provides that up to 20 percent of the funds provided to a district under Article 2 of the State School Aid Act may be transferred to a Building and Site Fund (hereinafter referred to as a Capital Projects Fund) and/or a Debt Retirement Fund.

- Sale of School Property (Net of proceeds required to be deposited in Debt Retirement Fund).

Therefore, as outlined above, the Capital Projects Fund is a higher order concept than the Sinking Fund. The proceeds of Sinking Fund millage are deposited into a Capital Projects Fund.

GENERAL RESTRICTIONS

The concept of a capital projects fund is that such funds are to be used for non-routine capital items. Examples include the construction of new buildings, major remodeling of buildings, and acquisition of equipment to equip newly constructed or remodeled buildings. Routine operation, maintenance and repair are to be accounted for in the district's General Fund.

Additionally, the language in section 380.1212 of the School Code requires that the district's independent auditor examine the use of sinking fund monies to ascertain that the district has expended the funds in an acceptable manner.

Bond Issue Funds deposited in the Capital Projects Fund must be used in accordance with the ballot language as approved by the district's voters.

SPECIFIC RESTRICTIONS

For any given capital project there will most likely be restrictions that will be unique to the project. It is important that the school district maintain adequate documentation to enable auditors and other monitors to verify that funds are spent in accord with the project's parameters.

For example, language in the School Code requires that bonds for technology be paid off within the "usable life" of the equipment. "Usable life" for the given items needs to be clearly defined somewhere in the bond issue documentation, and the bond payment schedule must reflect that repayment was made in accordance with this code.

E.14 ECONOMIC DEVELOPMENT TAX INCENTIVE PROGRAMS

INTRODUCTION

Several State laws enable municipalities to attempt to stimulate economic growth and commercial and industrial expansion in Michigan. These laws allow tax revenue to be diverted or "captured" from other taxing units, such as school districts, almost totally at the discretion and initiative of local municipalities seeking to influence business location or expansion in their communities. School districts annually lose substantial amounts of tax revenue in this manner. When faced with this situation, the best course of action available to a school district is to become knowledgeable of the governing statute and exercise whatever options may be allowed under the law.

DISCUSSION OF THE ISSUE

State laws provide two distinct approaches which allow taxpayer money to be used to stimulate economic development; Tax Increment Financing (TIF) and Tax Abatements.

Tax Increment Financing

Tax increment financing is used by local governments to finance infrastructure improvements. It allows public projects in a designated area to be financed by diverting or "capturing" revenue derived from increases in property value as compared with an established base valuation. An example of how this works is shown below:

Initial Assessed Value of Tax Increment Area	$10,000,000
Assessed Value of new private development	$1,500,000
Inflationary Increase in value of existing property	$500,000
Total Assessed Value	$12,000,000
LESS:	
Initial Assessed Value	$10,000,000
Captured Assessed Value	$2,000,000

In the above example, all taxes generated from millage levied by local taxing units such as school districts on the $2,000,000 of "captured" assessed value is diverted to the use of whatever Tax Increment Financing (TIF) authority is in place in the area. A school district levying 18 mills could lose at least $36,000 in tax revenue on the increased value of "captured" property within the TIF authority for each year of the life of the authority.

Four State laws authorize tax increment financing in Michigan; the Downtown Development Authority (DDA) Act, P.A. 197 of 1975; the Tax Increment Finance Authority (TIFA) Act, P.A. 450 of 1980; the Local Development Financing (LDF) Act, P.A. 281 of 1986; the Brownfield Redevelopment Financing (BRF) Act, P.A. 381 of 1996.

a) **Downtown Development Authority (DDA) Act, P.A. 197 of 1975**
The DDA Act may be used by a city, township, or village in an area of the downtown of a municipality zoned and used principally for business. The purpose of a DDA is to prevent deterioration and promote economic growth within a business district by developing, adopting, and implementing development plans. The Authority may construct, rehabilitate, equip, improve, maintain, or operate any building within the downtown district for public or private use. To support these activities, the Authority may obtain revenue from several sources including:

- Incremental tax revenue on "captured" property. Beginning in 1994, plans may only capture school taxes to repay contracts and advances entered into before August 19, 1993 and to repay obligations issued before 1995 to finance a project. (Additional conditions and exceptions apply.)
- Tax revenue generated from up to 2 mill taxing authority.
- Proceeds from revenue bonds.
- Leased or owned property rented for profit.
- Loan proceeds from the governing municipality.
- Proceeds from State and federal grants or public/private contributions.

b) Tax Increment Finance Authority (TIFA) Act P. A. 450 of 1980

The TIFA Act authorized cities to create a TIFA district, with specific boundaries, anywhere in the city, not just downtown. The TIFA is governed by a 7-13 member board of directors appointed by the city council. The purpose of a TIFA is to halt a decline in property values and promote growth within an area designated as a TIFA district. A TIFA has broad powers to plan and implement projects within the boundaries of the TIFA district. To support its activities, a TIFA may:

- "Capture" all taxes levied by any taxing authority within the TIFA district on incremental property values above those established at the inception of the TIFA. Beginning in 1994, plans may only capture school taxes to repay contracts and advances entered into before August 19, 1993 and to repay obligations issued before 1995 to finance a project. (Additional conditions and exceptions apply.)
- Plan, develop, acquire, and control property.
- Borrow from the governing city council.
- Issue revenue bonds to finance large projects.
- Receive public and private contributions as well as State and federal grants.

P.A. 280 of 1986 amended the Tax Increment Finance Authority Act to prohibit the establishment of a new authority or expansion of an existing authority district after December 31, 1986. Existing authorities were not eliminated under this legislation and will continue to function indefinitely or until they are dissolved by their governing body.

c) Local Development Financing (LDF) Act, P.A. 281 of 1986

The LDF Act succeeds P.A. 450 and is an attempt to improve on the previous legislation. Unlike either P.A. 197 (DDA) or P.A. 450 (TIFA), Public Act 281 (LDF) can only be used to provide public facilities for manufacturing and agricultural processing activities. The authority may, however, be created by a city, village, or urban township, not just by a city as under P.A. 450. Beginning in 1994, plans may only capture school taxes to repay contracts and advances entered into before August 19, 1993 and to repay obligations issued before 1995 to finance a project. (Additional conditions and exceptions apply.) P.A. 281 attempted to remedy other deficiencies by:

- Not allowing for the capture of a facility's taxes if the construction of the facility has the effects of transferring 50 or more jobs from another municipality unless permission is given by the affected community.

- Excluding debt millage.

- Requiring Board of Control to consist of one representative appointed by the county board of commissioners, one representative of any local community college or junior college whose revenues are affected by the plan junior college whose revenues are affected by the plan two representatives of any unit of government levying at least 20 percent of total ad valorem property taxes in the development area (school district), and not less than seven members appointed by the chief executive officer of the city, village, or urban township creating the authority.

The reduction in school operating millage resulting from the adoption of Proposal A created an uncertainty for LDFs, DDAs, and TIFAs to meet their obligations. The Legislature passed Acts 280, 281, 282, P.A. 1994, to help reduce the impact of the school finance reform on DDAs, TIFAs, and LDFs respectively. The new amendments provide authorities, with eligible obligations, a three-step process to fund the related debt. If the first step does not provide sufficient funding, the authority goes to the next step.

The three steps are: step 1) captured school revenues; step 2) captured revenues from nonschool millage; and step 3) the State will provide reimbursement to the authorities up to the amount that would have been captured if the 1993 school millages were still being levied.

d) Brownfield Redevelopment Financing (BRF) Act P.A. 381 of 1996

The BRF Act may be used by a city, township, village or county to capture taxes from a site of environmental contamination in order to pay for clean-up costs of the site. The plan my capture local school district operating taxes and the SET, but only if the work done at the property is consistent with a work plan approved by the Department of Environmental Quality (DEQ) before January 1, 2001.

As noted, each authority has specific powers and limitations. For a detailed analysis of each, the individual statute should be consulted. Additional information may be obtained from the Office of Revenue and Tax Analysis of the Michigan Department of Treasury (517) 373-9002.

e) Smart Zones Act, P.A. 248 of 2000

Smart Zones expanded the LDFA Act to allow the creation of up to 10 “Certified Technology Parks”, a type of high technology industrial park. In 2002, additional legislation allowed the MEDC to designate an additional 5 zones. The Smart Zones may capture local school operating taxes and school education tax (SET).

Tax Abatements

Tax abatements were designed to provide a stimulus in the form of significant tax incentives to industrial and commercial interests to renovate and expand aging plants and commercial facilities in Michigan. There is one primary instrument for providing tax abatement incentives; The Plant Rehabilitation and Industrial Development District Act, P.A. 198 of 1974.
Other tax incentives have recently been permitted in an effort to revitalize economically distressed areas of the state, both urban and rural; these include the Michigan Renaissance Zone Act, Neighborhood Enterprise Zones, the Commercial Rehabilitation Act, the Obsolete Property Rehabilitation Act and personal property tax waivers.

a) The Plant Rehabilitation and Industrial Development District Act, P.A. 198 of 1974

The legislative body of a local governmental unit (city, township, or village) is authorized under P.A. 198 of 1974 to issue an industrial facilities exemption certificate to a replacement facility (including a restored facility), a new facility or a speculative building. A facility issued an exemption certificate is exempt for ad valorem taxation but is subject to the industrial facilities tax. Industrial property eligible for an exemption certificate includes land improvements, buildings, structures, and other real property and machinery, equipment, furniture, and fixtures used in the manufacturing and processing of goods, materials. Recent legislation now includes creation and synthesis of biodiesel fuel, high technology activity, qualified start-up businesses and logistical optimization centers as types of activities that qualify for an IFT exemption. The duration of the exemption is left to the discretion of the local legislative body but may not extend beyond 12 years after the completion of the facility.

The manner in which the industrial facilities tax is calculated and the amount of the tax are dependent on the type of facility qualifying for the exemption. For a new facility or speculative building, the total taxable value of the facility (excluding land) each year is multiplied by one-half of the total mills levied by all taxing jurisdictions in the district, except that the Michigan Jobs Commission may require the facility to pay 0, 3, or all 6 of the State Education Tax Mills. The net effect is that the industrial facilities tax is about 50% of what taxes would be if the facility were subject to general ad valorem property taxation. New facilities granted an abatement before 1994 pay one-half of the 1993 school operating millage rate and no State Education Tax. For a replacement or restored facility, the SEV of the obsolete facility (excluding land) in the year preceding the issuance of the industrial facilities exemption certificate is multiplied by the total mills levied by all taxing jurisdictions in the district. The industrial facilities tax, in effect, exempts from taxation the increased value of the replacement or restored facility for a period of up to twelve years. Industrial facilities tax receipts are distributed among the taxing jurisdictions in the same manner as ad valorem property taxes, except that to the extent a school district is “in formula” the share of the tax attributable to local school operating mills (generally the first 18 mills levied on non-homestead property) and special education and vocational education mills levied by ISDs are deposited in the State school aid fund. Upon expiration of the certificate, the abated facility is placed on the ad valorem property tax roll.

b) Michigan Renaissance Zone Act, P.A. 376 of 1996

A State administrative board with recommendations from the renaissance zone review board is authorized under P.A. 376 of 1996 to designate 11 regions in Michigan as Renaissance Zones. Effective January 1, 1997, an individual living in or a business located in a Renaissance Zone will receive an exemption, deduction or credit from certain state and local taxes for up to 15 years. Enabling legislation which was passed after P.A. 376 exempts individuals and businesses in a Renaissance Zone from various taxes including, but not limited to, the following State and local taxes: Michigan Single Business Tax, Michigan Income Tax, Michigan's 6-mill State Education Tax, Local Personal and Real Property Tax, Local Income Tax and Utility Users Tax. The obvious impact to schools is a reduction in local tax revenue, however school tax revenue lost as result of exempting property under this act is reimbursed by the State to the schools via section 20 of the State Aid Act.

PA 259 of 2000 and subsequent legislation created 20 Agricultural Processing Renaissance Zones that provided tax breaks for specific areas that meet the agricultural processing requirements

PA 512 of 2002 created one Alternative Energy Renaissance Zone for a term not longer than 20 years that promotes research, development and manufacturing of alternative energy technology.

PA 266 of 2003 created tool and die renaissance recovery zones to allow eligible tool & die businesses to qualify for tax breaks associated with renaissance zones. These recovery zones are industry based and are company specific. The boundaries of the zone may include more than one local unit.

Other legislation created renaissance zones for renewable energy and forest product processing zones.

c) Neighborhood Enterprise Zone Tax Abatements, P.A. 147 of 1992

This abatement provides for the development, rehabilitation of residential housing located in eligible distressed communities. In lieu of general property taxation for up to 15 years after rehabilitation or completion of a facility that is granted an exemption, certificate holders pay a specific tax known as the Neighborhood Enterprise Zone Tax. For the Neighborhood Enterprise Zone Tax, the ISD millage for in-formula districts is paid to the School Aid Fund. Applications are filed, reviewed and approved locally while the State Tax Commission is responsible for final approval.

There are different tax rates and bases depending on the type of facility that qualifies for the NEZ exemption. The most common type is a new facility that is a principal residence where the tax rate on the property is the 1/2 the statewide average on principal residence property from the preceding year. In 2006, the NEZ millage rate on a principal residence new facility was 16.95 mills.

A rehabilitated facility has a frozen value and pays no taxes on the improvements. A recent legislative change creates a homestead facility which provides a 50 percent tax exemption on local unit and county operating millage.

A homestead facility must be located within an established NEZ and be purchased or transferred to the owner after December 31, 1997. Please see the State tax Commission website for further information.

d) Commercial Rehabilitation Act, P.A. 210 of 2005

This Act offers owners of certain rehabilitated commercial facilities in certain districts a property tax abatement for up to 10 years. The property must meet the required obsolescence of the Act as determined and certified by the local unit assessor. A property must receive final approval from the State Tax Commission. The property taxes are based on prior year's taxable value for millage other than school related millages. There are no tax cuts for school millages.

A certificate holder remits a commercial rehabilitation tax in lieu of the ad valorem property tax. For the commercial rehabilitation tax, the local school operating millage and ISD millage for in-formula districts are remitted to the School Aid Fund.

e) Obsolete Property Rehabilitation Act, P.A. 146 of 2000

This Act provides commercial and commercial housing property tax exemptions for 1 to 12 years from the ad valorem property tax. The property that is rehabilitated must meet obsolescence requirements as provided by the Act and be located in a qualified governmental unit.

The exemption from ad valorem property taxes does not include land or personal property. Certificate holders pay a specific tax known as the Obsolete Properties Tax. The value of the property before rehabilitation is frozen and is subject to the full millage rate of the local unit in which it is located. The increased value of the facility from rehabilitation is exempt from all local unit millage. The State Treasurer can grant an exemption of 1/2 of the local school operating millage and the SET for up to 25 certificates a year. For the obsolete properties tax, the local school operating millage and ISD millage for in-formula districts are paid to the School Aid Fund.

f) Personal Property Tax Waiver, P.A. 328 of 1998

This Act provides a 100 percent personal property tax exemption for specific businesses (primarily engaged in manufacturing, mining, research and development, wholesale trade or office operations) located in eligible distressed communities. The exemption is for all new personal property placed in a district established by a local unit of government which also determines the number of years granted for the exemption. The State Tax Commission is responsible for final approval. See the State Tax Commission website for approved exemptions.

IMPACT

Although school districts and other local governmental taxing units are thought to be most heavily impacted by Tax Increment Financing, the State of Michigan is a major contributor through the school aid fund. Normally, when taxable value increases, school aid payments decrease proportionately. However, the School Aid Act has been amended to exempt increased taxable value included in a tax increment plan from the calculation of State aid. School aid payments to these districts are therefore increased from the levels that they would otherwise be. Thus, State school aid fund monies are diverted to replace monies captured by the TIFs. Similarly, the State school aid fund replaces monies lost as a result of exempting property within renaissance zones.

Tax increment financing affects the State budget in another manner, also. When Property Tax Abatements are used as an inducement for industrial and commercial development, the business that receives the abatement pays a specific tax in lieu of the property tax. This specific tax is known as the industrial facility tax (IFT). Normally, the portion of these taxes due to a school district is paid instead to the school aid fund. However, if the IFT revenues are captured by a tax increment finance plan, the revenues flow to the TIF authority instead of the State.

Districts faced with the implementation of a Tax Increment Financing plan should contact the Michigan Department of Education, State Aid Section to assure that any taxable value adjustments are properly noted.

CAUTIONS

If the amount of school taxes captured by a TIF exceeds the eligible obligations, refunds are to be made from the TIFAs to the school districts. These amounts must be reported to the Michigan Department of Education-State Aid Unit so that State aid can be recalculated.

School districts should be aware there are differences in the way that tax collecting treasurers handle the distribution of current and delinquent tax collections within their respective communities. The Michigan Department of Treasury has directed that local taxing units (including school districts) must be paid their levies in full before either current or delinquent taxes are distributed to a TIFA. When local units are paid their tax levies in full, the total of all subsequent delinquent tax collections and interest on taxes are to be paid to the TIFA treasurer.

Tax levy adjustments (board of review, tribunal, etc.) and charge backs are to be made in total against the payments made to the tax increment financing authority until those amounts equal the amount of taxes previously distributed to the tax increment financing authority. School districts concerned with the method of distribution used by their local or county treasurer may contact the Michigan Department of Treasury, Local Government Audit Division for guidance.

"Out of Formula" ISDs (ISDs not receiving section 56 or 62 State aid) should ensure they are receiving all Industrial and Commercial Facility taxes since it is possible the local unit treasurer may be remitting the ISD and IFT taxes to the State. It would be wise to notify all local unit treasurers that you are an "out of formula" ISD and as such are entitled to receive all IFT amounts.

E.15 Charging Federal Programs for Unemployment

Q. Is it allowable to charge unemployment compensation claims to federal grants? If so, how are the charges determined?

A. This issue is addressed in 2 CFR Part 225, Cost Principles for State, Local and Indian Tribal Governments also known as OMB Circular A-87. Attachment B, item 22.e. states: "Actual claims paid to or on behalf of employees or former employees for workers' compensation, unemployment compensation, severance pay, and similar employee benefits (e.g., subsection 8.f. for post retirement health benefits), are allowable in the year of payment provided the governmental unit follows a consistent costing policy and they are allocated as a general administrative expense to all activities of the governmental unit. The MDE does not allow this method because it artificially inflates administrative expenses.

Attachment B, item 8.d.(5) states: "The cost of fringe benefits in the form of employer contributions or expenses for social security; employee life, health, unemployment, and worker's compensation insurance (except as indicated in section 22, Insurance and indemnification); pension plan costs (see subsection e.); and other similar benefits are allowable, provided such benefits are granted under established written policies. Such benefits, whether treated as indirect costs or as direct costs, shall be allocated to Federal awards and all other activities in a manner consistent with the pattern of benefits attributable to the individuals or group(s) of employees whose salaries and wages are chargeable to such federal awards and other activities."

Based on this, there are at least three acceptable ways that districts may charge unemployment compensation costs to federal funds.

1) If a district participates in an unemployment compensation insurance program in which the insurance rate charged is a function of the district's past unemployment compensation experience (rare in Michigan) and the rate is applied uniformly and consistently to all salaries paid by the district, the district may use federal funds to pay premiums. Federal funds may be used to pay premiums only if the rate is applied uniformly and consistently to all salaries being paid by the district.

2) If a district has established a reserve (internal service or proprietary fund?) from which it pays unemployment compensation claims, it may charge federal programs to fund the reserve in proportion to the current salary distribution. Federal funds are allowable to the extent that the type of coverage, extent of coverage, and the rate of payment would have been allowed had insurance been purchased to cover the risks. The federal government will question excessive reserves.

3) If a district does not currently participate in an unemployment compensation insurance program (option #1), or contribute to a reserve (option #2), it may establish a fringe benefit rate as the basis for charging unemployment compensation claims to federal programs. The rate is

the percentage that the unemployment compensation claims represent of the total salaries paid by the district. For example, if the unemployment compensation claims are $20,000 and total district salaries are $2 million (including $150,000 charged to federal funds), then the "fringe benefit rate" used to compute unemployment payments is 1% of the districts salaries.

These options are also available for social security; employee life, health, and worker's compensation insurance; pension plan costs; and other similar benefits, provided such benefits are granted under established written policies.

E.16 GASB #68 Supplemental Guidance

INTRODUCTION

This publication is designed to communicate information related to Michigan School Accounting Manual Referent Group's guidance to Michigan public schools implementing GASB Statement 68, (GASB 68) *Accounting and Financial Reporting for Pensions* and to assist auditors in auditing the applicable areas as published by the AICPA State and Local Governments Audit and Accounting Guide.

The Statement was effective for school districts in Michigan for the June 30, 2015 fiscal year-end. The Michigan School Accounting Manual Referent Group has developed this guidance for Michigan Public School Districts and their auditors. It was designed to supplement (not replace) Governmental Accounting Standards Board's *GASB Statement 68, the GASB Implementation Guide and the AICPA Audit Guide* referenced above resources to assist in completing a portion of your school district audit related to the accounting and auditing of the net pension liability and related deferred inflows and outflows.

This guidance is not intended to be all inclusive or replace professional judgement.

The GASB Implementation Guide and statements can be obtained at www.gasb.org/ *The AICPA Audit Guide can be purchase at* www.aicpa.org/.

GASB #75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (GASB 75) was issued in June of 2015. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. GASB 75 became effective for school districts beginning with the fiscal year ending June 30, 2018. The Michigan Public School Accounting Manual Referent Group has reviewed the Statement and related implementation guidance, and has determined separate guidance would parallel that of GASB 68, and is therefore not necessary to add in detail. Implementation of GASB 75 requires the recording of the Net OPEB Liability (including any related deferred inflows/outflows of resources) and OPEB expense, while the below guidance for GASB 68 focused on the Net Pension Liability and related amounts.

In 2012 the Governmental Accounting Standards Board (GASB) published Statement No. 68, which changed the way public pension plans, like the Michigan Public School Employees Retirement System (MPSERS), discloses its pension information. GASB 68 also requires that individual districts provide certain disclosures within their financial statements that provide specific data relating to the district's pension plan. Any reporting unit that was required to report to ORS during the measurement period (initially October 1, 2013 - September 30, 2014) was also required to comply with GASB 68 in its annual financial statements beginning with the fiscal year ending June 30, 2015 and the requirements continue in years beyond.

There are certain facets under GASB 68 that are unique to Michigan and MPSERS so it is important that these nuances be considered to achieve consistent and reliable reporting across all Michigan districts. The impacts of Section 147(a) and Section 147(c) on district expenditures, as well as expenditures in Special Education, Food Service, and other funds capturing payroll costs must also be given consideration.

There are multiple parties involved with pulling all the pieces together. These parties include:

- School District
- Office of Retirement Services (ORS) including Michigan Public Schools Retirement System (MPSERS)
- Auditor General (AG)
- Actuary for MPSERS
- Michigan Department of Education (MDE) and Center for Performance and Information (CEPI)
- District external audit firm
- Michigan School Business Officials (MSBO)

Chapter 1 The School District's Role in Complying with GASB 68

The school district's role in complying with GASB 68 will require an understanding of both internal and external reporting systems.

Internally, the district must understand its accounting and payroll systems, both with respect to how Reportable Compensation is determined and resultant pension expenditures calculated and captured (particularly for the purpose of isolating only the defined benefit portion of the expense) as well as how the General Ledger functionality impacts the extraction and reporting of data to external parties such as ORS and CEPI (for the FID).

The district must also understand the various pension options and their related expenditures to be able to separate and distinguish what expenditures are covered by the reporting requirements. Understanding the primary retirement plans available is therefore essential. At the highest level, these are categorized simply as a DB "Defined Benefit" Plan, a DC "Defined Contribution" Plan and "Pension Plus" Hybrid Plan. Each type carries with it specific *employer* contributions of varying rates contributions (DB Pension, DC Pension and PHF "Personal Healthcare Fund"). Each type also carries with it specific *employee* contributions for those same items depending upon their elections, plus may also include a HCC "Health Care Contribution", also if elected by the employee. Business Managers should refer to the ORS materials available online for a more in-depth discussion of the Plans and rates.

"Section 147" is commonly used to refer to funds appropriated by the state of Michigan. Section 147(a) is state aid that is used to assist districts in paying for some portion of its pension expenditures. It is not directed towards any particular pension expenditure and does not have to be carved out into any special reporting category. It is simply a funding source to the district. Expenditures paid with this source are treated as their form dictates, for example, as part of total defined benefit contributions.

However, Section 147(c) refers to specific appropriations meant to pay for Unfunded Actuarial Accrued Liabilities (UAAL) in excess of the statutory cap of 20.96%. This cap on the district share of UAAL contributions was established by statue in 2012 (PA 300). Since then, districts have received a state aid amount based on the prior pension plan year payrolls reflecting an *approximate* 'contribution' percentage on current year payrolls. Districts must expense this amount but are direct-billed in an amount equal to the revenue. Because this amount represents the excess UAAL above the statutory district cap, such expense is generally deemed to meet the definition of a 'statutory' contribution within the meaning of the Statement 68. The importance of this distinction cannot be overemphasized, as it impacts deferral calculations as well as required supplementary information disclosures discussed in later chapters.

Only employer contributions for the pension and health care fall into one of the following categories:

- Defined benefit pension expenditures fund level
- Defined benefit health care expenditures(OPEB) fund level
- Defined contribution pension expenditures
- Section 147(c) pension expenditures

Only the defined benefit pension expenditures are used to determine the GASB 68 pension expense and the deferred outflow amount discussed in Chapter 2.

A good working knowledge of the ORS reporting system is also essential, especially if the local accounting system does not provide sufficient detail to break out the defined benefit portion of the expenditure. Certain data may have to be downloaded from the ORS site in this case and may only be available for a limited time, so districts are advised to do so periodically throughout the year.

Accurate capture and maintenance of certain employee census data is also a critical element and district responsibility. At a minimum, the Employee Name, Plan Election, Gender, Date of Birth, Service Hours, and Type of Entry (New, Transfer, Retiree) must be accurate to ensure proper reporting is occurring and deductions and expenditures are calculated and submitted on a timely and accurate basis.

For external reporting purposes, year-end accruals and deferrals must be reported on the district's Statement of Position. The district must have an understanding of how to calculate and report the pension expense, deferred inflows and outflows, amortization of the inflows and outflows, and changes in the net pension liability. Calculation of pension expenditures attributable to post-retirement health benefits may also be required.

There are also very specific note disclosures that are the responsibility of the district. Disclosures required under earlier GASB pronouncements have not been eliminated. Those note disclosures must continue to be made. The remaining chapters provide more information on where to obtain the information to make necessary calculations, but ultimately the financial statements and notes are a district responsibility.

The Management Discussion and Analysis (MD&A) is impacted as well by GASB 68 and the district must address the impact implementation has on the district, particularly to the various subcategories (restrictions) and total Net Position.

Understanding certain key points, terms and requirements will aid the Business Manager in applying GASB 68 to the district financial statements.

- The impact is on the system-wide financial statements rather that the fund level financial statements.
- Allocation of the district-wide pension expense cannot be ignored. Pension expense may need to be allocated to general and special revenue funds, etc. as the allocation impacts the Statement of Activities.
- The impact this has upon equity in the government-wide statements should be considered. (The accepted interpretation (Z54.10) from the implementation guide, is that restrictions placed on Special revenue funds, such as food service, special education and vocational education funds at the fund level, should be reduced for their proportionate share of the net pension liability in calculating the restricted portion of net position. In many instances this will be zero as it cannot be negative.) This would be similar to how other accounting differences such as compensated absences have been handled in the past.
    - Whether or not allocations are made to these funds should be determined on the basis of whether or not the fund has *compensation in the current year*. This is the trigger for making an allocation.
    - The existence of compensation in prior periods does not trigger an allocation if on a current basis no compensation exists. For example, if food service is wholly privatized, that fund will no longer share the net pension liability because it no longer makes contributions.
    - It is the Committee's opinion that restricted net positions cannot be negative and therefore, for example, a food service restriction is potentially going to be partially or wholly reduced when the fund's proportionate share is allocated.
- Statutorily required expense relates only to <u>defined benefit pension</u> contributions and does not refer to contributions for post-retirement health care, e.g. 3% subsidy.
- Unless the district is in arrears in making its ORS payments, the required disclosure of pension contribution deficiencies will likely be at or near zero but conversely those in arrears must disclose the amount.
- The general ledger and/or fund financial statements likely combine retirement-related items (DB and DC Pension, Healthcare and so-called "Section 147(c)" expense). Districts must take care to separate and address the GASB 68 reporting, allocations, and note disclosures to pertain to only DB Pension and exclude the other types).
- An ongoing amortization lapse schedule should be maintained in order to properly capture and recognize amortization of the various 'layers' of deferred inflows/outflows.

<u>Journal Entries</u>

Districts must make Journal Entries to record their share of the Net Pension Liability at year end, as well as to recognize deferred inflows and outflows. These adjustments are needed to produce the official system wide statements, including the statement of net position. Whether or not the entries must be recorded in the general ledger is a district decision and will depend upon whether the district populates the Long Term Debt liability in the FID from a file produced via the ledger, or hand-keys the GLTD (Fund 92) fields.

In Year One of GASB 68 implementation (restated to June 30, 2014) the impact upon Unrestricted Net Position was recognized and therefore (absent true prior period adjustments) all future entries will be aimed at recording the net change for the year. This can be accomplished by either reversing the prior year entries or recording new entries at the end of the current year, or by booking the net changes to the components. This example takes the latter approach:

At year end: (Note: Amounts should be allocated by fund or fund type as necessary)	Debit	Credit
Pension Expense	$ 4x, 4x	
Deferred outflow/inflow - ORS amount (do not net)	$ 4x, 4x	$ 4x, 4x
Deferred outflow/inflow - contributions		$ 4x, 4x
Change in Net Pension Liability		$ 4x, 4x
Amortization of deferred inflow/outflow		
	$4x, 4x	$4x, 4x

The source or calculation of these amounts is explained in the following chapters. Whether the entry is a debit or credit will vary depending upon the facts and circumstances of each district. The essential task is to convert the data available for the district at the end of the Pension System's year end (September 30th) to adjusted balances at June 30th (nine months later).

Chapter 2 Reporting Deferred Inflows and Outflows

GASB 68 requires recognition of deferred inflows of resources and deferred outflows of resources related to pensions (collectively referred to as "deferrals" in this section) in addition to recognition of the net pension liability. In general deferrals are included in 1 of 3 categories: deferrals related to investments in the pension plan, deferrals related to total pension obligation, and deferrals related to employer contributions subsequent to the measurement date of the plan (9/30 for MPSERS) to the Districts fiscal year end (the following 6/30). These deferrals impact the government wide financial statements, and fund level enterprise funds only.

Deferrals in the first 2 categories are amortized. Investment related deferrals are amortized over a 5 year period. Deferrals related to the total pension obligation are amortized over the average of the expected remaining service lives of all employees (active and inactive) in the Plan in the year the deferral was created. Each year, the deferral generated are amortized using the average of the expected remaining service lives of all employees calculated for that year. This creates a layering of deferrals. As an example, in year 2 of GASB 68, the deferrals determined in year 1 continue to be amortized and deferrals computed in year 2 are also amortized. This is analogous to how fixed asset depreciation works over time.

Specifically, deferred inflows/outflows of resources related to the total pension obligation are:

> Differences between expected and actual experience
>
> Changes of assumptions
>
> Changes in proportion and differences between Reporting Unit contributions and proportionate share of contributions

Deferred inflows/outflows of resources related to investments are:

> Net difference between projected and actual earnings on pension plan investments

Deferred Outflows related to Reporting Unit (school district) contributions:

> Reporting Unit contributions subsequent to the measurement date

As stated earlier in this guidance, The School District, as a participating government in the cost sharing multiple employer plan (MPSERS, the Plan), assumes their proportionate share of the Plan obligation and proportionate share of Plan level deferred inflows and outflows. Annually MPSERS computes Plan level net pension liability and Plan level deferred inflows and outflows. MPSERS also computes the proportionate share percentage for each participating government, or reporting unit (school district). The proportionate share is applied to the Plan level amounts to determine the ending net pension liability and deferred inflow/outflow balances for each reporting unit. Similarly, pension expense is also allocated to each reporting unit using the same methodology. These amounts are provided annually at the ORS website where the GASB 68 information is provided (http://www.michigan.gov/psru/).

As noted earlier, while the investment related deferrals amortization always uses a 5 year period, the average of the expected remaining service lives of all employees is actuarially determined and will change annually. MPSERS method of amortizing the deferrals is to recognize a 1 full year of amortization in the year the deferral is created. To complete the accounting for the deferrals the following must be completed:

- Beginning of year deferral balances must be identified for each type of deferral, deferrals must be accounted for and amortized individually and should not be combined.
- Current year amortization calculated for each of the beginning balance deferral balances, using a straight line method
- Determination of current year deferred inflows and outflows and record balances
- Amortize a full year of current year deferred inflows and outflows
- Determine ending balances for current year deferred inflows/outflows

To assist in the accounting and reporting process, ORS has provided on the web site above the deferred inflow/outflow amortization tables for each year in which deferred inflows and outflow balances exist. The reporting unit (school district) can use this information to assist in validating the amounts recorded in the reporting unit financial statements. Note, the accounting and reporting of the amounts is the responsibility of the reporting unit. As a result the records supporting the amounts reported should be maintained by the district. The deferred inflow/outflow information by reporting unit is provided as an informational service of ORS and does not receive any specific audit assurance as part of the audit performed by the Office of the Auditor General. Maintenance and evaluation of the supporting information is ultimately the responsibility of the reporting unit (school district). The information provided by ORS will be helpful to the district in maintaining its own records.

Reporting the deferred inflows and outflows on the government wide financial statement (and enterprise funds, if applicable) generally should be reported gross. That is the reporting unit should refrain from netting deferred amounts in any of the deferral categories. While netting is allowed in limited circumstances (netting of investment related deferrals should be reported "net") maintaining separate records will ensure the accounting and reporting can be accomplished effectively. The financial statement disclosures require reporting the deferred inflow and outflow balances for each of the deferral categories.

In addition, GASB 68 requires display of the total annual amortization by year. This can be reported on a net basis.

Deferred (Inflows) and Deferred Outflows of Resources by Year (to Be Recognized in Future Pension Expenses

Plan Year Ended September 30	Amount
201x	
201y	
201z	
202a	
202b	

Reporting unit contributions to the Plan subsequent to the measurement date must also be recorded as a deferred outflow of resources related to pensions. The Reporting Unit must compute the pension contributions expensed in the fund level statements subsequent to 9/30 through the following 6/30, including consideration for accruals at June 30. The goal is to exclude fund level pension expense recognized subsequent to 9/30 from the expense reported in the government wide statements. Those contributions are instead reported as a deferred outflow of resources on the government wide statements, and enterprise funds if applicable. The Reporting Unit must compute and adjust the records to reflect the deferred outflow on the government wide statements.

Maintaining records documenting the Reporting Unit's process and conclusions will be essential since GASB 68 deferred inflows and outflows will only be adjusted once a year at year end.

Chapter 3 Auditing Procedures and the Role of the Auditor General (AG)

The references included in this chapter are from the AICPA Audit & Accounting Guide for State and Local Governments dated March 1, 2015. The audit guide is periodically updated so make sure you are working with the most recent version. All auditors should have a copy of this guide available for reference.

The main section from the guide we will be referencing is Chapter 13 Defined Benefit Pension Plans (Plan and Employer Considerations).

The following guidance will concentrate on information from:

- Part III - Employer Accounting, Financial Reporting, and Auditing Considerations: Cost-Sharing Employers
- Appendix B - Governmental Employer Participation in Cost-Sharing Multiple-Employer Plans: Issues Related to Information for Employer Reporting

Issue 1: What is required to be reported for a MPSERS School District?

13.151 Governments (employers) that provide defined benefit pensions through a cost-sharing multiple-employer (cost-sharing) plan such as (MPSERS) that is administered through a trust or equivalent arrangement are required to report their proportionate shares of the plan's collective net pension liability, pension expense, and certain deferred outflows of resources and deferred inflows of resources (pension amounts) in their financial statements in accordance with GASB Statement No. 68.

Recommendation - Become familiar with the reference material in this guide and become familiar with the related entries, numbers and disclosures in this area to complete your annual audit report. This section is designed to assist in describing the audit procedures necessary to provide assurance on these numbers used in the audited financial statements. The auditor of the employer has certain responsibilities when auditing the district. Appendix B referenced above will discuss the role of the Auditor General discussed later in this chapter. As previously mentioned in Chapter 1, it is the district's responsibility to have proper policies, procedures and internal controls in place to provide accurate accounting and census data information.

Issue 2: What are some of the challenges for the employer and auditor?

13.177 Each cost-sharing employer will be challenged about how to obtain all information to support its proportionate share of collective pension amounts reported in the employer's financial statements (that is, the collective net pension liability, deferred outflows of resources, deferred inflows of resources, and pension expense). The employer's proportionate share of the collective pension amounts is a measure of the proportionate relationship of the employer to all employers and nonemployer contributing entities.
13.178 Similarly, employer auditors will be challenged in terms of obtaining sufficient appropriate evidence regarding the pension amounts included in employer financial statements. AU-C section 500 states that the objective of the auditor is to design and perform audit procedures that enable

the auditor to obtain sufficient appropriate audit evidence to be able to draw reasonable conclusions on which to base the auditor's opinion.

13.179 Appendix B provides a two-part approach to address the challenges of employers and their auditors. The first part addresses employer allocations. The second part addresses a method to obtain reasonable assurance on the total net pension liability, total deferred outflows of resources, total deferred inflows of resources, and total pension expense for the sum of all participating entities. Appendix B provides detailed explanations and illustrations. *The AG provides an annual report in Michigan using this two part approach.*

Recommendation - Be aware of the financial and non-financial information your auditor will need when auditing this area. Auditors will need to develop an audit plan to cover the required areas and also understand the role the auditor general has in this process. It is the referent group's opinion relying solely on the audit report issued by the Auditor General is not adequate to comply with AICPA with auditing standards.

Issue 3: Census Data - What audit testing is required?

13.182 Significant elements of census data are those elements that, either individually or when combined with other elements, could result in a material misstatement to one or more elements of either the employer's financial statements (that is, net pension liability, deferred outflows of resources, deferred inflows of resources, and pension expense). Significant elements of census data may include some or all of the following:

a. Name
b. Social Security number
c. Date of birth
d. Date of hire
e. Marital status
f. Pensionable wages
g. Service credits (periods of time worked)
h. Class of employee
i. Position or job code (or both)
j. Contributions
k. Gender
l. Date of termination or retirement
m. Spouse's date of birth
n. Employment status (active, inactive entitled to but not receiving benefits, retired).

The significance of some of these elements, all of these elements, or additional elements to any plan will be based on the impact that a particular census data element has on the measurement of a particular financial statement element.

13.183 The underlying records that support the census data for cost-sharing plans are typically maintained by different parties. ***The underlying records of active members are typically maintained by the employers.*** The underlying records of plan members who are no longer employed by the employers (that is, inactive members) are typically maintained by the plan. The underlying records of active members (of the applicable individual employer) maintained by the employer for purposes of testing the significant elements of census data that were reported to the plan during the period could be tested by the employer auditor, ***but access to information for the census data maintained by the plan, as well as census data related to active plan members of other cost-sharing employers, necessitates additional support from the plan and plan auditor.***

13.184 ***The employer auditor performs procedures to test the census data reported to the plan***, whereas the plan auditor performs procedures to test the census data maintained by the plan. The plan auditor performs procedures to test census data reported to the plan by the employers***. The substantive procedures over census data (for both the employer and the plan auditor) are ordinarily based on a concept that focuses on testing incremental changes (see paragraph 13.15) to the census data file since the prior actuarial valuation***, assuming (a) the prior year plan financial statements were audited, (b) there were no modifications to the auditor's report in the prior year related to census data, and (c) the auditor has concluded there is no significant risk of material misstatement due to incomplete or inaccurate census data from prior years. ***These procedures would ordinarily cover the census data reported to the plan during the year immediately preceding the actuarial valuation.***

Recommendation - The employer auditor needs to determine which elements of census data require testing. Typically date of birth, gender and type of plan enrolled are all sensitive elements, while others might also be considered sensitive. In addition when testing census data consideration needs to be given to higher risk areas such as new employees entering the plan or those retiring. Consideration of the testing to be performed by the plan auditor the (AG) should also be considered. The Auditor General does do census data as part of their procedures to issue their report***; however, the district auditor cannot rely solely on the tests performed by the Auditor General.*** Certain employee information might not be available to the employer. In addition when testing census data online this is a live file and date of most recent change is not available and should be considered as part of the risk assessment.

Issue 4: Relevant assertions and audit procedures

13.185 The relevant assertions relating to net pension liability, deferred outflows of resources, deferred inflows of resources, and pension expense for cost-sharing employers include the following:

a. Member census data reported to the plan is complete and accurate.
b. Member census data accumulated and maintained by the plan is complete and accurate.
c. Actuarial assumptions used in computing the total pension liability are in accordance with **GASB Statement No. 68** and the Actuarial Standards of Practice.
d. The employer's proportionate share of the collective pension amounts, including net pension liability, deferred outflows of resources and deferred inflows of resources, and pension expense have been properly determined and recorded in the financial statements in accordance with **GASB Statement No. 68** and in the proper period.
e. The employer's deferred outflows of resources and deferred inflows of resources for contributions made after the measurement date, changes in proportion, and differences between the employer's actual contributions and its proportionate share of all employer contributions have been properly determined and recorded in the financial statements in accordance with **GASB Statement No. 68** and in the proper period and are properly disclosed.

Example Audit Procedures to Consider

13.187 The following are examples of substantive procedures for auditing net pension liability, deferred outflows of resources and deferred inflows of resources, and pension expense for cost-sharing employers based on the suggested two-part approach included in **appendix B** (excluding census data, which are discussed in **paragraph 13.188)**:

a. Obtaining the actuarial valuation report used to measure the collective total pension liability for the plan as of the measurement date based on **GASB Statement No. 68.**
b. Evaluating the professional qualifications of the actuary, including his or her competence, capabilities, and objectivity as required by **paragraph .08** of AU-C section 500. If the actuary is not known to the auditor, consider other factors that might provide information regarding the actuary's qualifications, such as (i) the actuary's membership in a recognized professional organization, (ii) the number and types of public pension plans served, including years of experience, and (iii) the opinion of other actuaries whom the auditor knows to be qualified regarding the actuary's professional qualifications. The AG provided their consideration of this matter and provided it to local auditor's upon request.
c. Reading the actuarial certification for potential exclusions from the scope of the actuary's work or qualifications on the actuary's certification relating to actuarial methods, actuarial assumptions, or census data.
d. Determining whether the actuarial valuation was performed as of a date no more than 30 months and 1 day of the employer's fiscal year-end.
e. Evaluating whether the methods and assumptions used in determining the total pension liability are in accordance with **GASB Statement No. 68** and Actuarial Standards of Practice and are the same as those used by the plan.

f. Obtaining the audited schedule of employer allocations and comparing and recalculating amounts specific to the employer to the employer's records.
g. Obtaining the audited schedule of pension amounts and recalculating the allocated pension amounts for the employer by multiplying the collective pension amounts for the plan by the employer's proportionate share (allocation percentage).
h. Evaluating whether the plan auditor's report on the schedule of employer allocations and the schedule of pension amounts is adequate and appropriate for the employer auditor's purposes.
i. Evaluating whether the plan auditor has the necessary competence and objectivity for the employer auditor's purposes.
j. Obtaining the audited plan financial statements and performing the following:
    1) Agreeing or reconciling net pension liability reported in the schedule of pension amounts in item g to the net pension liability disclosed in the notes to the plan financial statements
    2) Agreeing the fiduciary net position component of the net pension liability disclosed in the notes to the plan financial statements to that reported in the plan statement of fiduciary net position
k. Obtaining a detailed schedule of employer-specific deferred outflows of resources and deferred inflows of resources by type (including contributions made after the measurement date, changes in proportion, and differences between the employer's actual contributions and its proportionate share of total employer contributions) and by period and performing the following:
    1) Testing contributions made after the measurement and before the employer's year-end and comparing to amount reported as deferred outflows of resources
    2) Agreeing recognition (amortization) schedules and recognition (amortization) periods for prior period deferral amounts to prior year working papers and audited financial statements
    3) Recalculating the current year gross incremental deferrals for changes in proportion and differences between the employer's actual contributions and its proportionate share of total employer contributions
    4) Recalculating the recognition (amortization) amount for the current period incremental deferrals for changes in proportion and differences between the employer's actual contributions and its proportionate share of total employer contributions for example, by dividing the current respective gross incremental deferrals by the current year amortization period for the plan
l. Recalculating the mathematical accuracy of the total deferred outflows of resources and deferred inflows of resource by type as of the measurement date and the total recognition (amortization) for the measurement period based on the components tested in items g & k.
m. Recalculating pension expense based on the employer's specific pension expense in the schedule of pension amounts from item g plus the recognition (amortization) amount of employer-specific deferred outflows of resources and deferred inflows of resources from item k.

Census Data

13.188 The following are examples of substantive procedures for testing the completeness and accuracy of the census data reported to the plan (active members):

a. Identifying the payroll registers and payroll cycles for all reporting units of the government
b. Obtaining the population of employer (payroll) transmission reports submitted to the plan during the year and performing the following:
   1) Evaluating whether the population of employer (payroll) transmission reports received is complete based on an understanding of the employer's payroll registers and cycles
   2) Selecting a sample of employer (payroll) transmission reports to verify the mathematical accuracy of reports and whether the correct contribution rates were used
c. Obtaining a list of new employees hired during the year from the employer and performing the following procedures:
   1) Selecting a sample to determine that eligible new employees were appropriately enrolled in the plan and properly included in the employer/payroll transmission reports
   2) For each employee selected, verifying accuracy of the significant elements of census data reported to the plan upon enrollment to the payroll and personnel records (for example, name, Social Security number, date of birth, gender, date of hire, marital status, and position or job code)

The employer auditor will likely need to obtain the enrollment forms or the equivalent information from the plan.

d. Obtaining a list of status changes reported to the plan during the year (other than those reported through the employer [payroll] transmission reports) and selecting a sample to determine that they were appropriate based on the relevant plan criteria and underlying payroll and personnel records
e. Selecting a sample of active members and performing the following procedures:
   Consider selecting a sample from the employer's payroll registers throughout the year and a sample from the employer (payroll) transmission reports throughout the year.
f. 1) Agreeing details included in the applicable employer (payroll) transmission report (for example, name, position or job code, periods of time worked, pensionable wages for the period, employer contribution for period, and employee contribution for the period) to the payroll register (or vice versa), and agree the underlying information to the payroll and personnel records
   2) Evaluating whether the selected employee is eligible to participate in the plan based on the eligibility criteria included in the plan document (state statutes)
   3) Recalculating service credits

Recommendation - Develop audit procedures taking into consideration census data needed to be tested, the type of testing being performed as well as other recommended procedures list above as considered necessary. Keep in mind the AG report as detailed in Appendix B takes into account both reports being issued similar to last year.

Issue 5: The auditor's general role in providing audited information to be relied on by the employer auditor.

Appendix B from Chapter 13 of the AICPA addresses these issues. Governmental Employer Participation in Cost-Sharing Multiple-Employer Plans: Issues Related to Information for Employer Reporting

Employer Issues-Recognizing Proportionate Share of Collective Pension Amounts and Related Auditor Issues

B-03 Each employer participating in a cost-sharing plan needs to obtain all necessary information to support its proportionate share of the collective net pension liability, deferred outflows of resources, deferred inflows of resources, and pension expense. In order to calculate each employer's proportionate share of these collective pension amounts, individual proportions need to be determined by measuring each employer against the total of all the employers participating in the plan.

B-04 Similarly, employer auditors need to obtain sufficient appropriate evidence in order to opine on the pension amounts included in employer financial statements. **AU-C section 500**, Audit Evidence (AICPA, Professional Standards), states that the objective of the auditor is to design and perform audit procedures that enable the auditor to obtain sufficient appropriate audit evidence to be able to draw reasonable conclusions on which to base the auditor's opinion.

Solution for Allocation of Pension Amounts
B-11 The AICPA guide recommends that cost-sharing plans calculate each employer's allocation percentage and collective pension amounts. This approach promotes consistency in the calculation as well as minimizes the overall effort and cost incurred by all parties involved. The following discussion provides details regarding this recommendation.

Schedule of Pension Amounts by Employer

B-15 In addition to the recommended schedule of employer allocations, this guide also recommends that cost-sharing plans prepare a schedule of pension amounts by employer and related notes to the schedule. This guide further recommends the plan engage its auditor to obtain reasonable assurance and report on total net pension liability, total deferred outflows of resources, total deferred inflows of resources, and total pension expense for the sum of all participating entities included in this schedule. Such a schedule may be presented as a stand-alone schedule or included as a supplemental schedule to the plan's financial statements. Regardless, the plan auditor forms an opinion on each element described previously and reports on the schedule in accordance with **AU-C section 805**. This is currently being performed by the AG in Michigan.

Employer and Employer Auditor Responsibilities

B-20 *The employer is solely responsible for its financial statements and, therefore, is responsible for evaluating the information used to recognize and disclose pension amounts in its financial statements*. Similarly, *the employer auditor is solely responsible* for the audit of the employer's financial statements and, therefore, *is responsible for determining the sufficiency and appropriateness of audit evidence necessary to reduce audit risk to an appropriately low level.* ***Nevertheless, the employer and employer auditor may use the plan auditor's report on the schedules to provide evidence that the pension amounts allocated to the employer and included in the employer's financial statements are not materially misstated.***

B-21 Before using the work of the plan auditor as evidence, the employer auditor should evaluate whether the plan auditor's report and accompanying schedules are adequate and appropriate for the employer auditor's purposes. For example, the employer auditor may review the plan auditor's report and any related opinion modifications and assess other matters discussed in the report. *Additionally, the employer auditor should evaluate whether the plan auditor has the necessary competence and independence for the employer auditor's purposes. It should be documented the AG is competent to perform this audit for state-wide use.*

B-22 Further, the employer and employer auditor have a responsibility to verify and recalculate amounts specific to the applicable employer, including the employer amount used in the allocation percentage (that is, the numerator of the calculation), recalculate the allocation percentage for the employer, and recalculate the pension amounts allocated to the employer based on the allocation percentage. In addition, the employer has responsibilities related to the census data reported to the plan as well as determining the appropriateness of the work of the actuary. Auditing considerations for cost-sharing employers are discussed in **part III**.

Recommendation- The employer and employer auditor should obtain the AG audit report with the two schedules referenced above and complete the procedures indicated above to determine the allocations at the employer level are appropriate for use in preparing the annual audited financial statements.

Chapter 4 Notes to Financial Statements and RSI

GASB 68 requires schools to include more information in the notes to financial statements about the pension plans they are a part of than has been required in the past. GASB 68 has required disclosures for both defined benefit plans and defined contribution plans.

Michigan schools participate in the following pension plans administered by ORS:

- MPSERS which is a cost-sharing, multiple employer, state-wide, **defined benefit** public employee retirement plan.
- State of Michigan 401k Plan which is a deferred compensation fund and a **defined contribution** retirement fund.

Issue 4-1: where do I begin in my quest to draft notes to financial statements that meet the requirements of GASB 68?

GASB 68 paragraphs 74-80 address the required notes to financial statements for cost sharing employers for defined benefit pensions and defined contribution pensions required notes to financial statements are addressed in paragraph 126. Illustration 3 - Note Disclosures and Required Supplementary Information for a Cost-Sharing Employer and Illustration 6 - Note Disclosures for an Employer with Defined Contribution Pensions are provided in GASB 68 Appendix C Illustrations.

RECOMMENDATION 4-1

Defined Benefit Plan

The GASB 68 Illustration 3 is a generic sample and while it includes all the required note disclosure components it would require much editing to include the appropriate information specific to the MPSERS defined benefit pension plan.

For the defined benefit plan we believe a better option is to begin with the sample language regarding the Notes to Financial Statements provided by ORS. ORS has a GASB 68 section on their website where you can obtain this information. http://www.michigan.gov/psru/0,2496,7-284-69905---,00.html

TIP: Do not just copy and paste the ORS information and use it as your own. The information still needs to be read and edited to make sure it is appropriate for your school and financial statements. Compare the ORS version to both the GASB Illustration 3 and GASB 68 paragraphs 74-80, included below, to make sure no required components are missing. You may find the ORS sample includes more than is required and you may want to edit for that also.

Notes to financial statements - all cost-sharing employers

74. The total (aggregate for all pensions, whether provided through cost-sharing, single-employer, or agent pension plans) of the employer's pension liabilities, pension assets, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense/expenditures for the period associated with net pension liabilities should be disclosed if the total amounts are not otherwise identifiable from information presented in the financial statements.

75. The information identified in paragraphs 76-80 should be disclosed for benefits provided through each cost-sharing pension plan in which the employer participates. Disclosures related to more than one pension plan should be combined in a manner that avoids unnecessary duplication.

Pension plan description

76. The following information should be disclosed about the pension plan through which benefits are provided:

a. The name of the pension plan, identification of the public employee retirement system or other entity that administers the pension plan, and identification of the pension plan as a cost-sharing pension plan.
b. A brief description of the benefit terms, including (1) the classes of employees covered; (2) the types of benefits; (3) the key elements of the pension formulas; (4) the terms or policies, if any, with respect to automatic postemployment benefit changes, including automatic COLAs, and ad hoc postemployment benefit changes, including ad hoc COLAs; and (5) the authority under which benefit terms are established or may be amended. If the pension plan is closed to new entrants, that fact should be disclosed.
c. A brief description of contribution requirements, including (1) the basis for determining the employer's contributions to the pension plan (for example, statute, contract, an actuarial basis, or some other manner); (2) identification of the authority under which contribution requirements of employers, nonemployer contributing entities, if any, and employees are established or may be amended; and (3) the contribution rates (in dollars or as a percentage of covered payroll) of those entities for the reporting period. Also, the amount of contributions recognized by the pension plan from the employer during the reporting period (measured as the total of amounts recognized as additions to the pension plan's fiduciary net position resulting from actual contributions and from contributions recognized by the pension plan as current receivables), if not otherwise disclosed.
d. Whether the pension plan issues a stand-alone financial report (or the pension plan is included in the report of a public employee retirement system or another government) that is available to the public and, if so, how to obtain the report (for example, a link to the report on the public employee retirement system's website).

Information about the employer's proportionate share of the collective net pension liability

Assumptions and Other Inputs

77. Significant assumptions and other inputs used to measure the total pension liability, including assumptions about inflation, salary changes, and ad hoc postemployment benefit changes (including ad hoc COLAs) should be disclosed. With regard to mortality assumptions, the source of the assumptions (for example, the published tables on which the assumption is based or that the assumptions are based on a study of the experience of the covered employees) should be disclosed. The dates of experience studies on which significant assumptions are based also should be disclosed. If different rates are assumed for different periods, information should be disclosed about what rates are applied to the different periods of the measurement.

78. The following information should be disclosed about the discount rate:

a. The discount rate applied in the measurement of the total pension liability and the change in the discount rate since the prior measurement date, if any
b. Assumptions made about projected cash flows into and out of the pension plan, such as contributions from employers, nonemployer contributing entities, and employees
c. The long-term expected rate of return on pension plan investments and a brief description of how it was determined, including significant methods and assumptions used for that purpose
d. If the discount rate incorporates a municipal bond rate, the municipal bond rate used and the source of that rate
e. The periods of projected benefit payments to which the long-term expected rate of return and, if used, the municipal bond rate applied to determine the discount rate
f. The assumed asset allocation of the pension plan's portfolio, the long-term expected real rate of return for each major asset class, and whether the expected rates of return are presented as arithmetic or geometric means, if not otherwise disclosed
g. Measures of the employer's proportionate share of the collective net pension liability calculated using (1) a discount rate that is 1-percentage-point higher than that required by paragraph 64 and (2) a discount rate that is 1-percentage-point lower than that required by paragraph 64.

The Pension Plan's Fiduciary Net Position

79. All information required by this and other financial reporting standards about the elements of the pension plan's basic financial statements (that is, all information about the pension plan's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and fiduciary net position) should be disclosed. However, if (a) a financial report that includes disclosure about the elements of the pension plan's basic financial statements is available on the Internet, either as a stand-alone financial report or included as a fiduciary fund in the financial report of another government and (b) information is provided about how to obtain the report, reference may instead be made to the other report for these disclosures. In this circumstance, it also should be disclosed that the pension plan's fiduciary net position has been determined on the same basis used by the pension plan, and a brief description of the pension plan's basis of accounting, including the policies with respect to benefit payments (including refunds of employee contributions) and the valuation of pension plan investments should be included. If significant changes have occurred that indicate that the disclosures included in the pension plan's financial report generally do not reflect the facts and circumstances at the measurement date, information about the substance and magnitude of the changes should be disclosed.

Other information

80. The following additional information should be disclosed, if applicable:

a. The employer's proportionate share (amount) of the collective net pension liability and, if an employer has a special funding situation, (1) the portion of the nonemployer contributing entities' total proportionate share (amount) of the collective net pension liability that is associated with the employer [19] and (2) the total of the employer's proportionate share (amount) of the collective net pension liability and the portion of the nonemployer contributing entities' total proportionate share of the collective net pension liability that is associated with the employer
b. The employer's proportion (percentage) of the collective net pension liability, the basis on which its proportion was determined, and the change in its proportion since the prior measurement date
c. The measurement date of the collective net pension liability, the date of the actuarial valuation on which the total pension liability is based, and, if applicable, the fact that update procedures were used to roll forward the total pension liability to the measurement date
d. A brief description of changes of assumptions or other inputs that affected measurement of the total pension liability since the prior measurement date
e. A brief description of changes of benefit terms that affected measurement of the total pension liability since the prior measurement date
f. A brief description of the nature of changes between the measurement date of the collective net pension liability and the employer's reporting date that are expected to have a significant effect on the employer's proportionate share of the collective net pension liability, and the amount of the expected resultant change in the employer's proportionate share of the collective net pension liability, if known
g. The amount of pension expense recognized by the employer in the reporting period

h. The employer's balances of deferred outflows of resources and deferred inflows of resources related to pensions, classified as follows, if applicable:
   1) Differences between expected and actual experience in the measurement of the total pension liability
   2) Changes of assumptions or other inputs
   3) Net difference between projected and actual earnings on pension plan investments
   4) Changes in the employer's proportion (paragraph 54) and differences between the employer's contributions (other than those to separately finance specific liabilities of the individual employer to the pension plan) and the employer's proportionate share of contributions (paragraph 55)
   5) The employer's contributions to the pension plan subsequent to the measurement date of the collective net pension liability

i. A schedule presenting the following:
   1) For each of the subsequent five years and in the aggregate thereafter, the net amount of the employer's balances of deferred outflows of resources and deferred inflows of resources in subparagraph (h) that will be recognized in the employer's pension expense
   2) The amount of the employer's balance of deferred outflows of resources in subparagraph (h) that will be included as a reduction of the collective net pension liability

j. The amount of revenue recognized for the support provided by nonemployer contributing entities (see paragraphs 58 and 95), if any.

Defined Contribution Plan

We believe the GASB 68 Illustration 6 makes a good starting point for drafting the notes for the defined contribution plan. A good place to get the information needed to customize this disclosure is from the State of Michigan 401k Plan website. See the following link. This website provides access to the plan document and most recent audited financial statement. GASB 68 paragraph 126 is also included below for your use to make sure all required components are included in your note. https://stateofmi.voya.com/einfo/planinfo.aspx?cl=michigan&pl=640003PU&page=plan_informationpublications401k&domain=stateofmi.voyaplans.com&s=&d=fc284654415932588a7ba8431c2e16d2c6850535

TIP: The required defined contribution plan disclosure regarding the amount of forfeitures reflected in pension expense in the reporting period is probably immaterial and, if so, is not required to be disclosed.

Notes to Financial Statements

126. The following information should be disclosed in notes to financial statements about each defined contribution pension plan to which an employer is required to contribute:

a. The name of the pension plan, identification of the public employee retirement system or other entity that administers the pension plan, and identification of the pension plan as a defined contribution pension plan
b. A brief description of the benefit terms (including terms, if any, related to vesting and forfeitures and the policy related to the use of forfeited amounts) and the authority under which benefit terms are established or may be amended
c. The contribution (or crediting) rates (in dollars or as a percentage of salary) for employees, the employer, and nonemployer contributing entities, if any, and the authority under which those rates are established or may be amended
d. The amount of pension expense recognized by the employer in the reporting period
e. The amount of forfeitures reflected in pension expense recognized by the employer in the reporting period
f. The amount of the employer's liability outstanding at the end of the period, if any

Issue 4-2: Where do I get the data to complete/update the notes once the narrative portion is prepared?

Much of the data in the notes to financial statements is not available at the school level. The information that is available at the school level is the pension contributions for both the defined benefit and defined contribution plans and the payables to the pension plans at the reporting date.

RECOMMENDATION 4-2

Most of the data will come from two separate audited reports issued by MPSERS.

- Comprehensive Annual Financial Report for the Fiscal Year Ended September 30, 2015
- Schedules of Employer Allocations and Schedule of Collective Pension Amounts for Fiscal Year Ending September 30, 2015

The ORS GASB 68 website also notes they may provide some data to each school via a letter through the Data Exchange Gateway.

These audited reports and additional letter should give you the information necessary to update most of the data components of the notes. Do not forget to update the actuarial assumptions if those have changed since the prior year.

Issue 4-3: State Aid - Section 147(c)

How does the receipt of Section 147(c) monies and the subsequent payment of Section 147(c) monies to ORS affect the reporting/disclosure of pension contribution payments?

RECOMMENDATION 4-3

Section 147(c) monies should be considered contributions to MPSERS. Annually, ORS determines how these payments are allocated between OPEB and pension. ORS should be consulted each year to determine this annual allocation. That allocation will impact both the statutory contribution used within the plan year and the deferred inflows and outflows for contributions made and revenue received for the period subsequent to the plan year up to the entity fiscal year end. As a result, when a portion of the 147c amount is considered part of the statutory required contribution, it should be disclosed in the contribution section of the notes to financial statements because GASB 68 paragraph 76.c. describes the contribution amount as "…measured as the total of amounts recognized as additions to the pension plan's fiduciary net position…".

GASB 68 paragraph 81.b (1) says "statutorily or contractually required employer contributions should exclude amounts, if any, to separately finance specific liabilities of the individual employer to the pension plan." ORS has stated Section 147(c) monies are statutorily required employer **pension** contributions.

GASB 68 paragraph 58, included below, applies to Section 147(c) monies and in the Statement of Activities the Section 147(c) revenues should equal the Section 147(c) expenses attributed to OPEB for the period. The committee recommends schools report **the annual percentage of 147(c) monies allocated to the pension plan as deferred outflows and a similar amount as deferred inflows at June 30, 2016 since that portion of the 147c payment related to pension contributions**. Section 147(a) monies are not related to a specific ORS payment or contribution expense and should be excluded from the contributions disclosures.

Support of Nonemployer Contributing Entities That Are Not in a Special Funding Situation

58. Revenue should be recognized in an amount equal to (a) contributions to the pension plan from nonemployer contributing entities that are not in a special funding situation to separately finance specific liabilities of the individual employer to the pension plan and (b) the employer's proportionate share of the contributions to the pension plan from nonemployer contributing entities for purposes other than the separate financing of specific liabilities to the pension plan.

Firms which do not consider Section 147(c) payments to be transactions falling under Paragraph 58 should document their conclusions.

Issue 4-4: Payables to the Pension Plan

GASB 68 requires the school to include in the notes to financial statements the amount of payable and liability at the end of the reporting period to the defined benefit pension plan and the defined contribution plan, respectively.

How is a payable and liability at the end of the reporting period defined for these disclosure requirements?

Does the payable and liability relate only to pension obligations for payrolls paid prior to the end of the reporting period or does it include retirement obligation accruals related to accrued wages to be paid in July and August after the fiscal year end and subsequent July and August Section 147(c) payments?

RECOMMENDATION 4-4

The disclosure requirement for the defined benefit plan is described in GASB 68 paragraph 122 and for the defined contribution plan the requirement is described in GASB 68 paragraph 126.f. Both paragraphs are included below. There is very little guidance beyond these two paragraphs in GASB 68.

We are not making a specific recommendation on this issue, but we recommend that schools disclose how they are defining the payable and liability and what is included or excluded from the amount disclosed.

Notes to Financial Statements

122. The amount of payables to a defined benefit pension plan outstanding at the end of the reporting period, significant terms related to the payables, and a description of what gave rise to the payable (for example, legally required contributions to the pension plan, a contractual arrangement for contributions to a cost-sharing pension plan related to past service cost upon entrance into the arrangement, or a contractual arrangement for contributions to the pension plan related to a change of benefit terms enacted by an individual cost-sharing employer) should be included in notes to financial statements.

Notes to Financial Statements

126. The following information should be disclosed in notes to financial statements about each defined contribution pension plan to which an employer is required to contribute:

- The amount of the employer's liability outstanding at the end of the period, if any.

TIP: If there is no payable or liability at the end of the reporting period, no disclosure is necessary. We believe this will often be the case as payments to MPSERS are due within seven days after each pay period. Some Districts will elect to disclose the amounts of the normal June payment paid in July the pension accrual for summer pay and the remaining liability for the summer section 147 payments. We recommend disclosure of what is included be included when necessary.

Issue 4-5: GASB 68 effect on OPEB reporting

The sample notes to financial statements provided by both GASB 68 and ORS do not include any information related to OPEB. Prior year's financial statements had a note disclosure section for OPEB (primarily postemployment healthcare). Does this mean the disclosure is no longer required?

RECOMMENDATION 4-5

GASB 68 does NOT affect reporting for OPEB. OPEB should continue to be reported in the notes to financial statements in accordance with GASB 45 paragraph 24, included below. Often the pension and OPEB information is included in the same note to the financial statements. Be careful when updating the pension section of the note that the OPEB section does not get inadvertently removed.

GASB 75 will change the reporting for OPEB in the June 30, 2018 financial statements.

Notes to Financial Statements

24. Employers should include the following information in the notes to their financial statements 19 for each defined benefit OPEB plan in which they participate, regardless of the type of plan (except as indicated). Disclosures for more than one plan should be combined in a manner that avoids unnecessary duplication.

a. Plan description.
   1) Name of the plan, identification of the public employee retirement system (PERS) or other entity that administers the plan, and identification of the plan as a single-employer, agent multiple-employer, or cost-sharing multiple-employer defined benefit OPEB plan.
   2) Brief description of the types of benefits and the authority under which benefit provisions are established or may be amended.
   3) Whether the OPEB plan issues a stand-alone financial report or is included in the report of a PERS or another entity, and, if so, how to obtain the report.
b. Funding policy.
   1) Authority under which the obligations of the plan members, employer(s), and other contributing entities (for example, state contributions to local government plans) to contribute to the plan are established or may be amended.
   2) Required contribution rate(s) of plan members. The required contribution rate(s) could be expressed as a rate (amount) per member or as a percentage of covered payroll.
   3) Required contribution rate(s) of the employer in accordance with the funding policy, in dollars or as a percentage of current-year covered payroll, and, if applicable, legal or contractual maximum contribution rates. If the plan is a single-employer or agent plan and the rate differs significantly from the ARC, disclose how the rate is determined (for example, by statute or by contract) or that the plan is financed on a pay-as-you-go basis. ***If the plan is a cost-sharing plan, disclose the required contributions in dollars and the percentage of that amount contributed for the current year and each of the two preceding years, and how the required contribution rate is determined (for example, by statute or by contract, or on an actuarially determined basis) or that the plan is financed on a pay-as-you-go basis.***

Issue 4-6: Required Supplementary Information

GASB 68 requires two additional RSI schedules to be included in the financial statements. They are the Schedule of Proportionate Share of the Net Pension Liability (as of the measurement date of the net pension liability) and the Schedule of Contributions (as of the employer fiscal year end). Both schedules are required to present 10 years of information.

RECOMMENDATION 4-6

Schedule of Proportionate Share of the Net Pension Liability

The components of this schedule are defined by GASB 68 paragraph 81.a, included below. The only number not provided by ORS for this schedule is **Covered-employee payroll**. Make sure the payroll number is for MPSERS fiscal year of 10/1-9/30. Note GASB 82 changes the definition of covered employee payroll from gross payroll to reportable compensation (that is the compensation used to determine the contributions). This standard is effective for the June 30, 2017 financial statements with earlier application encouraged.

Schedule of Contributions

The components of this schedule are defined by GASB 68 paragraph 81.b, included below. The two numbers not provided by ORS for this schedule is **statutorily required contributions** and **Covered-employee payroll**. See State Aid - Section 147 above for information on statutorily required contributions. Make sure these amounts are for the school's fiscal year of 7/1-6/30. See comment above regarding covered payroll.

If the school is current in their payments to MPSERS the Contributions in relation to the statutorily required contributions will be the same as the statutorily required contribution. The Contributions in relation to the statutorily required contributions also include current payables, not just cash payments made.

TIP: The RSI schedules eventually will show 10 years with the pre-2015 years showing no information or they may start with the 2015 year and add an additional year each year until 10 years of data are reached. With either method make sure to explain why 10 years of data is not present.

TIP: Do not forget to include the required notes to the RSI schedules. See GASB 68 paragraph 82, included below.

Required supplementary information—all cost-sharing employers

81. The required supplementary information identified in subparagraphs (a) and (b), as applicable, should be presented separately for each cost-sharing pension plan through which pensions are provided. The information indicated in subparagraph (a) should be determined as of the measurement date of the collective net pension liability. The information in subparagraph (b) should be determined as of the employer's most recent fiscal year-end.

a. A 10-year schedule presenting the following for each year:
    1) If the employer does not have a special funding situation:
        a) The employer's proportion (percentage) of the collective net pension liability
        b) The employer's proportionate share (amount) of the collective net pension liability
        c) The employer's covered-employee payroll
        d) The employer's proportionate share (amount) of the collective net pension liability as a percentage of the employer's covered-employee payroll
        e) The pension plan's fiduciary net position as a percentage of the total pension liability.
b. If the contribution requirements of the employer are statutorily or contractually established, a 10-year schedule presenting the following for each year:
    1) The statutorily or contractually required employer contribution. For purposes of this schedule, statutorily or contractually required contributions should exclude amounts, if any, to separately finance specific liabilities of the individual employer to the pension plan.
    2) The amount of contributions recognized by the pension plan in relation to the statutorily or contractually required employer contribution. For purposes of this schedule, contributions should include only amounts recognized as additions to the pension plan's fiduciary net position during the employer's fiscal year resulting from actual contributions and from contributions recognized by the pension plan as current receivables.
    3) The difference between the statutorily or contractually required employer contribution and the amount of contributions recognized by the pension plan in relation to the statutorily or contractually required employer contribution.
    4) The employer's covered-employee payroll.
    5) The amount of contributions recognized by the pension plan in relation to the statutorily or contractually required employer contribution as a percentage of the employer's covered-employee payroll.

Notes to required schedules

82. Information about factors that significantly affect trends in the amounts reported in the schedules required by paragraph 81 (for example, changes of benefit terms, changes in the size or composition of the population covered by the benefit terms, or the use of different assumptions) should be presented as notes to the schedules. (The amounts presented for prior years should not be restated for the effects of changes—for example, changes of benefit terms or changes of assumptions—that occurred subsequent to the measurement date of that information.)

Chapter Five Information Resource for Disclosure Completion

In 2012 the Governmental Accounting Standards Board (GASB) published Statement No. 68, which changes the way public pension plans, like the Michigan Public School Employees Retirement System (MPSERS), discloses its pension information. GASB 68 also requires that individual districts provide certain disclosures within their financial statements that provide specific data relating to the district's pension plan. Any reporting unit that was required to report to ORS during the measurement period (October 1, 2013 – September 30, 2014) is also required to comply with GASB 68 in its annual financial statements beginning with the fiscal year ending June 30, 2015.

The Michigan Department of Technology, Management and Budget, through the Office of Retirement Services Public School Reporting Unit website has established a Governmental Accounting Standards Board (GASB) Statement No. 68 resource page that contains much of the information needed by districts to assist with completion of their GASB 68 required disclosures. It is expected ORS will update the web page annually.

E. ACCOUNTING ISSUES

The information is broken down into the following linked sections:

ORS Plan to Assist Reporting Units

Overview of ORS's plan to assist reporting units in meeting GASB 68 requirements. **Updated: 06/25/2015**

Data Tables

GASB-required pension data by reporting unit. Used in financial statements and to complete templates found in Notes and Required Supplemental Information.

Notes to Financial Statements

Sample language and guidance regarding the Notes to Financial statements that GASB requires to be disclosed in employers' financial statements.

Required Supplemental Information

Sample language, schedule templates and guidance regarding the Required Supplemental Information (RSI) that GASB requires to be disclosed in employers' financial statements.

Frequently Asked Questions and Glossary

Answers to questions ORS anticipates as a result of GASB 68, with a glossary of key terms. **Updated: 09/29/2015**

Auditor General Updates

Updates released by date from the Office of the Auditor General **Updated: 10/15/2015**

Detailed Guidance

PowerPoint presentation with detailed guidance for implementing GASB 68 data.

Additional sensitive data will be provided to your reporting unit via the Data Exchange Gateway (DEG). ORS will notify reporting units via email when this data is available.

Additional Linked Resources:

- GASB IMPLEMENTATION TOOLKIT FOR GOVERNMENTS - NO. 68
- AICPA - GASB Pensions: Issues and Resources
- Communicating GASB 68 to Your Board and Community - Maner Costerisan
- GASB 67 & 68 -Basic Training - Plante Moran
- GASB 67 & 68 - Advanced Training - Plante Moran
- GASB 68 for Schools - Yeo & Yeo

GLOSSARY

1. Statutorily Required Contribution: Contributions that a reporting unit actually made to MPSERS

2. 147c - Section 147c of the State School Aid Act refers to an appropriation for the state school aid fund for payments to districts and intermediate districts that are participating entities of the Michigan public school employees' retirement system (MPSERS). Payments made under this section shall be equal to the difference between the unfunded actuarial accrued liability contribution rate as calculated pursuant to section 41 of the public school employees' retirement act as calculated without taking into account the maximum employer rate of 20.96% included in section 41 of the act. The amount allocated to each participating entity under this section shall be based on each participating entity's proportion of the total covered payroll for the immediately preceding fiscal year for the same type of participating entities. A participating entity that receives funds under this section shall use the funds solely for the purpose of retirement contributions in an amount equal to the amount allocated to the retirement system in a form, manner and time frame determined by the retirement system.

3. Net Pension Liability: The net pension liability is the liability of employers (reporting units) to plan members for benefits provided through a defined benefit pension plan. The net pension liability equals the total pension liability minus the market value of assets

4. Reporting Unit: Reporting units, often referred to as the employers, are Michigan local school districts, intermediate school districts, public school academies, tax-supported community colleges, seven of Michigan's major universities, and district libraries

5. OPEB: All postemployment benefits other than retirement income (such as death benefits, life insurance, disability, and long-term care) that are provided separately from a pension plan, as well as postemployment healthcare benefits regardless of the manner in which they are provided. Other postemployment benefits do not include termination benefits. Currently GASB 68 does not require reporting on OPEB, although it is expected that reporting on OPEB will be added to GASB's requirements in the next few years. Note that much of what reporting units report to ORS is a combination of pension and OPEB. For this reason, some GASB-related figures (based solely on pension) will not match a reporting unit's figures (based on both pension and OPEB).

6. Measurement Date: Fiscal year end for MPSERS (the "plan") and is different from the FYE for school districts. MPSERS fiscal year ends on September 30. Reporting unit must provide all information for the period subsequent to the measurement date.

7. Cost Sharing Multiple Employer Plan: A multiple-employer defined benefit pension plan in which the pension obligations to the employees of more than one employer are pooled and pension plan assets can be used to pay the benefits of the employees of any employer that provides pensions through the pension plan. MPSERS is a cost-sharing multiple-employer pension plan.

8. Proportionate Share: Percentage of total pension contributions required from all reporting units in the plan. Proportionate share is based on the reporting unit's historical pension contributions to the system. Each reporting unit's proportional share percent and its proportionate share of the net pension liability will be provided by ORS each year. This is based on MPSERS plan fiscal year (Oct. 1-Sept. 30)

9. Census Data: Plan members' demographic data.

10. Covered Employee Payroll: Total payroll, not pensionable payroll. Total payroll = gross wages, including bonuses, stipends, or other nonreportable compensation. The payroll of covered employees, defined as gross earnings, not reportable compensation. For the purposes of GASB 68 a "covered employee" means an employee for whom the employer is required to make contributions to cover the unfunded accrued actuarial liability (UAAL), including some retirees who return to work.

    Reporting units do not report covered-employee payroll information to ORS. Each reporting unit will need to determine this amount themselves, for use in their note disclosures and in both Required Supplemental Information schedules. **Note:** the covered-employee payroll must be determined for two different time periods: the pension plan's fiscal year (October 1, 2013 - September 30, 2014) and the reporting unit's fiscal year (July 1, 2014 - June 30, 2015).

11. Deferred Inflow/Outflow: The deferred inflows and outflows of pension resources are amounts used under GASB 68 in developing the annual pension expense. Deferred inflows and outflows arise with differences between expected and actual experiences; changes of assumptions; and differences between projected and actual returns on investments. The portion of these amounts not included in pension expense should be included in the deferred inflows and outflows of resources to be recognized in future years (See Note 5).

12. Actuarial Assumptions: These assumptions are estimates of future experience with respect to rates of mortality, disability, turnover, retirement, rate or rates of investment income and compensation increases. Actuarial assumptions are generally based on past experience, often modified for projected changes in conditions.

13. Actuarial Valuation Report: The actuarial valuation report determines, as of the actuarial valuation date, the service cost, total pension liability, and related actuarial present value of projected benefit payments for pensions.

14. Actuarial Valuation Date: The date as of which an actuarial valuation is performed

15. Total Pension Expense: The total pension expense is the sum of the following pension expense items that are recognized from the beginning to the end of the MPSERS fiscal year (September 30). Some of the items will be additive and some will be subtractive, depending on each fiscal year.

    - Total service cost (employer and employee)
    - Interest on total pension liability
    - Current-period benefit changes to plan
    - Employee (or member) (service cost) contributions
    - Projected earnings on plan investments
    - Administrative expense
    - Other changes in plan fiduciary net position
    - Recognition of beginning deferred outflows (inflows) due to liabilities
    - Recognition of beginning deferred outflows (inflows) due to assets

E.17 FOOD SERVICE UNCOLLECTABLE DEBT WRITE-OFFS

BACKGROUND

This guidance has been prepared to assist districts with common journal entries that will be required to write-off uncollectable balances in the Food Service Fund.

As of July 1, 2017, School Food Authorities (SFAs) must have a written meal charging policy as well as a policy which addresses bad debt related to the non-profit school food service account (NSFSA). Policies regarding bad debt should be referenced in the meal charge policy. The SFA's bad debt policy and meal charge policy must be provided to MDE during the Administrative Review and Resource Management Review.

Bad debt 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). Any related collection costs and related legal costs arising due to the collection of inactive unpaid meal charges throughout that current school year and six-month collection period thereafter are an allowable cost to the NSFSA. Once inactive unpaid meal charges are written off as bad debt, collection or legal costs become an unallowable cost in the NSFSA per Federal regulations (2 CFR §200.426). No later than December 31st each year the NSFSA must write off inactive uncollectable meal charges as bad debt from non-federal funds to make the NSFSA whole. The funds may come from the district general fund, local funding, school or community organizations such as the Parent-Teacher Association (PTA), or any other non-Federal source.

TO WRITE OFF UNCOLLECTABLE ACCOUNTS

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 that was created following the logic above:

DEBIT	Cash
CREDIT	Accounts Receivable

Under this approach, the cash has been transferred and the uncollectible debt can be cleared in the POS system.

TO RE-ESTABLISH RECEIVABLES IN GENERAL FUND (optional)

The district has the option to continue to attempt to collect the balances that have been deemed uncollectible and written off by the Food Service fund. However, the district will want to heed revenue recognition criteria (i.e., the 60-day rule) as well as materiality when re-establishing the balances.

To Re-Establish Receivables:

DEBIT	Accounts Receivable
CREDIT	Unearned Revenue

To Record Subsequent Collections:

Any collections made would be recognized when collected.

DEBIT	Cash
CREDIT	Accounts Receivable
DEBIT	Unearned Revenue
CREDIT	Miscellaneous Local Revenue

The District may choose instead to record any subsequent collections only when they occur:

DEBIT	Cash
CREDIT	Miscellaneous Local Revenue

E.18 GASB #84 Supplemental Guidance

INTRODUCTION

This section is designed to communicate guidance to Michigan public schools related to the implementation of Governmental Accounting Standards Board (GASB) Statement #84, Fiduciary Activities. For Michigan's school districts, the requirements of this statement are effective July 1, 2019 (fiscal year 2019-20).

The Michigan School Accounting Manual Referent Group has developed this guidance for Michigan school districts and their auditors. It was designed to supplement (not replace) Governmental Accounting Standards Board's GASB Statement 84 and the GASB Implementation Guide. This guidance is not intended to be all inclusive or replace professional judgment.

SUMMARY

The objective of Statement #84 is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.

This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities.

For Michigan school districts, implementation of this Statement will primarily affect funds previously held in Agency Funds (6x). Funds previously considered custodial in nature, such as funds belonging to student groups, could potentially need to be moved to a governmental fund. Statement #84 also addresses Private Purpose Trust Funds, which are held by some school districts.

CONSIDERATIONS WHEN CLASSIFYING FUNDS

Statement #84 describes four fiduciary funds that should be reported, if applicable:

- *Pension (and other employee benefit) trust funds
- *Investment trust Funds
- Private-purpose trust funds
- Custodial funds

** Not applicable to Michigan school districts*

In order to determine if an activity should be accounted for as a fiduciary activity or a governmental activity, the following guidance should be considered in conjunction with the GASB 84 Implementation Guide and GASB Statement 84, Fiduciary Activities.

In order for an activity to be reported as a **fiduciary activity** all three criteria must be met:

1. The assets are controlled by the District
    a. Generally, in a bank account in the name of the District
2. Assets are NOT derived from own-source revenues
    a. Ex. state aid
3. Assets NOT derived from government mandated or voluntary non-exchange transactions
    a. Ex. property taxes

In addition to the above, one or more of the following criteria must be met:

1. Assets held in a qualifying trust in which School District is not a beneficiary, legally protected, and dedicated to providing benefits to recipients
2. Assets held for the benefit of individuals *(1)* without the School District having administrative or direct financial involvement *(2)*
3. Assets held for the benefit of outside organizations *(1)* not part of the School Districts reporting entity

(1) Beneficiaries of Funds

- An individual may be one or a collective group of individuals that represent the population of a group or club
- The District cannot be the beneficiary. The activity cannot benefit individual school buildings or other District operations/departments
- "Outside organizations" would refer to groups that are more formally organized (for example, a group that would have 501c(3) non-profit standing or have their own board and/or operating agreement that sets the rules of how they will operate)

(2) Administrative Control/Involvement

The District is generally considered to have administrative involvement if any of the following examples apply

- District has an employee or representative involved in the activity and has involvement with approving how funds are raised or spent
- District has policies or written procedures that dictate how the activities must operate, specifically as it relates to financial matters (approval for fundraising, setting fee pricing, etc.)
- The individuals involved in the activity/group do not have free will as it relates to determining how funds will be raised and spent

LEGAL CONSIDERATIONS

Section 380.1814 of the Revised School Code addresses prohibited uses of school district, intermediate school district, and public school academy funds and other public funds held by these entities. Certain items purchased with custodial funds prior to the implementation of Statement #84 may now be considered illegal/prohibited. Please refer to your district's legal counsel if you have questions about the allowability of purchases made in these funds.

ACCOUNTING CHANGES

New Account Codes
Fund Code 29 – Student/School Activity Funds
Balance Sheet Major Class Code 732 – Committed Fund Balance (Student Activity Fund)
Balance Sheet Major Class Code 791 – Net Position (Fiduciary Fund)
Revenue Major Class Code 178 – Other Private Purpose Trust Income
Expenditure Function Code 296 – Other Student/School Activity Expenditures
Expenditure Function Code 298 – Other Private Purpose Trust Expenditures
Expenditure Object Code 7920 - Other Student/School Activity Expenditures
Expenditure Object Code 7930 - Other Private Purpose Trust Expenditures

Modified Account Codes
Fund Code 28 – Renamed to "Public Purpose Trust Fund" (previously "Private Purpose Trust")
Fund Code 6x – Renamed to "Fiduciary Funds" (previously "Agency Funds")
Revenue Major Class Code 179 – Added Allowable Funds 6x

ACCOUNTING GUIDANCE

Accounting for Student/School Activities in General Fund (11) or Student/School Activity Fund (29)

Revenue	Major Class 179 – Other Student/School Activity Income Suffix 0000 – Not associated with any specific program or grant
Expenditure	Function 296 – Other Student/School Activity Expenditures Object 7920 – Other Student/School Activity Expenditures
Balance Sheet	Major Class 732 - Committed Fund Balance-Student/School Activity Fund

Accounting for Student/School Activities in Fiduciary Funds (6x)

Revenue	Major Class 179 – Other Student/School Activity Income Suffix 0000 – Not associated with any specific program or grant
Expenditure	Function 296 – Other Student/School Activity Expenditures Object 7920 - Other Student/School Activity Expenditures
Balance Sheet	Major Class 791 – Net Position

Accounting for Private Purpose Trust Funds in Fiduciary Funds (6x)

Revenue	Major Class 178 – Other Private Purpose Trust Income Suffix 0000 – Not associated with any specific program or grant
Expenditure	Function 298 – Other Private Purpose Trust Expenditures Object 7930 – Other Private Purpose Trust Expenditures
Balance Sheet	Major Class 791 – Net Position

At minimum, a single Revenue, Expenditure, and Balance Sheet entry may be used for budgeting and year-end reporting for all Student/School Activity Funds. Additional detail (such as disaggregating regular activity revenues from interest and other revenues) may be used at the discretion of the district.

As this Statement is implemented in 2019-20, districts should use Prior Period Adjustment entries to restate fund balances, as of July 1, 2019, within proper fund types as needed. This is needed as GASB #84 requires retrospective adoption. Although not directly related to prior period activity, this entry represents a restatement of fund balances and should be accompanied by notes in financial statements.

For internal tracking purposes, districts may use Grant Codes 900-999 (preferred) and/or Program Codes 600-999 to differentiate between activity types in both Fiduciary Funds and Student/School Activity Funds. Districts may also use appropriate building codes to help identify which building a given student/school activity is taking place in.

BUDGETING CONSIDERATIONS

Any funds previously classified as Agency Funds (6x) being moved to the General Fund (11) or the new Student/School Activity Fund (29) will now be subject to the budgeting requirements of the Uniform Budgeting and Accounting Act. As stated above, a single Revenue, Expenditure, and Balance Sheet entry may be used for budgeting in these funds, but additional detail may be used at the discretion of the district.

Given the potential unpredictability of Student/School Activity Funds, a district may choose to use prior year inflow and outflow totals (or other trend data) for initial budgeting purposes.

CHANGES AFFECTING AUDITED FINANCIAL STATEMENTS

Please refer to the Michigan School Auditing Manual for information relating to how GASB #84 affects the preparation of audited financial statements.

TRUST FUND GUIDANCE

Fund 28 – Public Purpose Trust Fund

- Formal/legal trust **exists**, district **has** decision-making authority **and** administrative oversight

Fund 5x – Trust Fund

- Formal/legal trust **does not exist**, district **does not have** decision-making authority and **has** administrative oversight

Fund 6x – Fiduciary Fund (Private Purpose Trust Fund)

- Formal/legal trust **exists**, district **does not have** decision-making authority and **has** administrative oversight

EXAMPLES

Most activities related to student or school activities currently charged to Agency Funds (6x) will need to be moved to the new Student/School Activity Fund (29) or the General Fund (11). The following journal entry examples apply to a district using the Student/School Activity Fund.

To record revenue collected for a Student/School Activity Account:

DEBIT	Cash	29-2101-0000
CREDIT	Other Student/School Activity Income	29-0179-0000-XXX-XXXX-XXXXX

To record expenditure for a Student/School Activity Account:

DEBIT	Other Student/School Activity Expenditure	29-1296-7920-XXX-XXXX-XXXXX
CREDIT	Accounts Payable	29-2402-0000

Then to move cash to cover payables:

DEBIT	Accounts Payable	29-2402-0000
CREDIT	Cash	29-2101-0000

At year end, to record fund balance committed to individual student/school activity:

Balance Sheet	Committed Fund Balance-Student Activity Fund	29-2732-XXXX

X = District discretion for internal tracking purposes.

E.19 GASB #87 Supplemental Guidance

INTRODUCTION

This section is designed to communicate guidance to Michigan school districts related to the implementation of GASB Statement #87 – Leases. This Statement has accounting and reporting impacts for both lessees (entities paying another for the right to use an asset) and lessors (entities receiving payment from another in exchange for the paying entity to use an asset).

For Michigan school districts, after applying the extension granted from GASB Statement #95, GASB #87 is effective for reporting periods beginning July 1, 2021 (fiscal year 2022).

SUMMARY

The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

Disclosures – GASB #87 also requires school districts to disclose certain information regarding the nature of the leased assets including the cost basis (grouped by major asset class) and accumulated amortization of leased assets, principal and interest payment requirements through maturity, and inclusion of the lease liability in the long-term obligation disclosure (among other requirement). See GASB #87 paragraph 37-39 for a full list of disclosure requirements for lessees and 57-60 for lessors.

OVERVIEW AND EXCLUSIONS FROM GASB #87

(Disclaimer – The guidance below is not intended to be a substitute for having a full understanding of all of the provisions under GASB #87 that could apply to your district. Please see GASB Statement #87 for additional support as well as the GASB #87 Implementation Guide No. 2019-3 both of which can be found on GASB's website)

Prior to GASB #87, classification and treatment of lease arrangements fell into either (1) operating leases, or (2) capital leases. Under this Statement and single model for lease accounting, the following excerpt now serves as the formal definition of a lease:

> *"A **lease** is defined as a contract that conveys control of the right to use another entity's nonfinancial asset (the underlying asset) as specified in the contract for a period of time in an exchange or exchange-like transaction. Examples of nonfinancial assets include*

> *buildings, land, vehicles, and equipment. Any contract that meets this definition should be accounted for under the leases guidance, unless specifically excluded in this Statement."*

Two primary considerations exist under this Statement that may exempt certain leases from the new treatment outlined in this Section:

- First, **short-term leases** ("a lease that, at the commencement of the lease term, has a maximum possible term under the lease contract of 12 months (or less), including any options to extend, regardless of their probability of being exercised) are not subject to GASB #87 changes. Lessees and lessors should continue to recognize short-term lease (as defined above) payments as outflows of resources or inflows of resources, respectively, based on the payment provisions of the lease contract.

- Second, any contracts or lease arrangements in which an asset transfers ownership from the lessor to the lessee at the end of the lease term (without any termination options or if it's reasonably certain that any cancellation clauses will not be exercised) should be accounted for as a sale/purchase of an asset on credit, not a lease.

Lessee/Lessor - For leases in which GASB #87 will apply, the school district must calculate the net present value of the future lease payments to be made/received over the Lease Term and record the amounts following the illustrative journal entries as noted in the guidance below.

- Lease Term – the noncancelable right to use an underlying asset **plus** the lessee's/lessor's option to extend the lease if reasonably certain the option *will* be exercised, and/or the lessee's/lessor's option to terminate the lease if reasonably certain the option *will not* be exercised).

Other Considerations

- Subsequent modifications made to original lease terms will need to be analyzed under GASB #87 to determine the impact as there are several possible outcomes as to the impact on the accounting
- Leases for "$1 per year" do not meet the definition of a lease in paragraph 4 of GASB #87, as GASB #87 only applies to exchange or exchange-like transactions and a lease for $1 of consideration does not meet the definition of "exchange" or "exchange-like" (as defined in GASB #33)

JOURNAL ENTRY EXAMPLES

Lessee Journal Entry Examples

	Governmental Fund - Initial Journal Entry – new lease	Debit	Credit
11-1-455-6240-xxx-0000-xxxxx-xxxx	Capital Outlay - Building	122,296	
11-1-261-6430-xxx-0000-xxxxx-xxxx	Capital Outlay - Equipment	547,011	
11-0-594-0000-000-0000-xxxxx-xxxx	Lease Proceeds		669,307
	To record the other financing sources and capital outlay expense associated with a new lease (note – this is only for leases entered into after 7/1/21)		

	Government-wide - Initial Journal Entry – new lease	Debit	Credit
9x-2-225-xxxx-xxxx-xxxx-xxxx-xxxx	Right to use asset - Building	122,296	
9x-2-243-xxxx-xxxx-xxxx-xxxx-xxxx	Right to use asset - Equipment	547,011	
9x-2-592-xxxx-xxxx-xxxx-xxxx-xxxx	Lease liability		669,307
	To record right to use asset and related liability		

	Governmental Fund - Lease payment	Debit	Credit
11-1-511-7150-xxx-0000-xxxxx-xxxx	Principal - Lease Payment	264,451	
11-1-511-7250-xxx-0000-xxxxx-xxxx	Interest Expense	10,415	
11-2-101-xxx-xxxx-xxxx-xxxxx-xxxx	Cash		274,866
	To record first payment on long-term lease		

	Government-wide - Lease payment and amortization	Debit	Credit
9x-1-711-7720-xxx-0000-xxxxx-xxxx	Amortization expense - Right to use asset	290,976	
9x-2-226-xxxx-xxxx-xxxx-xxxx-xxxx	Accumulated amortization - Right to use asset (Building)		10,000
9x-2-244-xxxx-xxxx-xxxx-xxxx-xxxx	Accumulated amortization - Right to use asset (Equipment)		280,976
	To record amortization of the right to use asset		
9x-2-592-xxxx-xxxx-xxxx-xxxx-xxxx	Lease liability	264,451	
9x-1-511-7250-xxx-0000-xxxxx-xxxx	Interest Expense	10,415	
9x-1-xxx-7150-xxx-0000-xxxxx-xxxx	Cash		274,866
	To record payment on long-term lease		

	Government-wide – Current vs. Noncurrent	Debit	Credit
9x-2-592-xxxx-xxx-xxxx-xxxxx-xxxx	Lease obligation – long term portion	50,000	
9x-2-492-xxx-xxxx-xxxx-xxxxx-xxxx	Lease obligation – current portion		50,000
	To reclassify the current portion of the lease liability at year-end		

Lessor Journal Entry Examples

	Governmental Fund - Initial Journal Entry	Debit	Credit
11-2-122-xxxx-xxxx-xxxx-xxxx-xxxx	Lease Receivable	699,307	
11-2-472-xxxx-xxxx-xxxx-xxxx-xxxx	Deferred Inflow of Resources - Leases		699,307
	To record lease receivable and deferred inflow of resources for leases		

	Government-wide - Initial Journal Entry	Debit	Credit
9x-2-122-xxxx-xxxx-xxxx-xxxx-xxxx	Lease Receivable	699,307	
9x-2-472-xxxx-xxxx-xxxx-xxxx-xxxx	Deferred Inflow of Resources - Leases		699,307
	To record lease receivable and deferred inflow of resources for leases		

	Governmental Fund – Cash Receipt	Debit	Credit
11-2-101-xxx-xxxx-xxxx-xxxxx-xxxx	Cash	274,866	
11-2-122-xxxx-xxxx-xxxx-xxxx-xxxx	Lease Receivable		274,866
	To record payment received from long-term lease		
11-2-472-xxxx-xxxx-xxxx-xxxx-xxxx	Deferred inflow of resources - Leases	290,976	
11-0-194-0000-000-0000-xxxxx-xxxx	Lease Revenue		280,561
11-0-194-0000-000-0000-xxxxx-xxxx	Interest revenue		10,415
	To record amortization of the deferred inflow of resources		

	Government-wide – Cash Receipt	Debit	Credit
11-2-101-xxx-xxxx-xxxx-xxxxx-xxxx	Cash	274,866	
11-2-122-xxxx-xxxx-xxxx-xxxx-xxxx	Lease Receivable		274,866
	To record payment received from long-term lease		
11-2-472-xxxx-xxxx-xxxx-xxxx-xxxx	Deferred inflow of resources - Leases	290,976	
11-0-194-0000-000-0000-xxxxx-xxxx	Lease Revenue		280,561
11-0-194-0000-000-0000-xxxxx-xxxx	Interest revenue		10,415
	To record amortization of the deferred inflow of resources		

SPECIAL CONSIDERATIONS

1. **Lessors** in a lease arrangement with and receiving principal and interest payments from another public school that meets GASB #87 criteria should record those revenues under Major Class 514, not 194 as shown in the above examples. This will prevent double counting of revenues at the statewide level.

2. Initial Adoption at 7/1/21 – Generally, for leases that were already in place at 7/1/21 the net present value will be calculated based only on the remaining lease term for those agreements and the journal entry is recorded in the full accrual fund only at 7/1/21. For lessees, no entries are recorded in the fund statements for existing leases at 7/1/21, only for leases entered into after 7/1/21. For lessors, a receivable/deferred inflow for the net present value of the future payments from the remaining term of existing leases in both the full accrual and modified accrual funds.

AUDIT CONSIDERATIONS

Net Present Value Calculation – It is recommended that districts have their auditor audit the discount rate that the district plans to use in the net present value calculation before producing all the present value calculations.

FINANCIAL INFORMATION DATABASE (FID) REPORTING CONSIDERATIONS

In May 2022, several additions and changes to account codes that may apply to lessee and lessor arrangements under GASB #87 were made to the Appendix of the Michigan Public School Accounting Manual for both government-wide and fund-level entries. See “GASB Statement #87 Account Code Changes and Additions (May 2022) under Additional Resources.

Beginning in FY22 Financial Information Database (FID) reporting, districts must use these new and changed codes for the reporting of lease activities and ending balances if applicable. Although Balance Sheet data is now collected to the three-digit Major Class Code detail, the District Data Entry portion of FID will remain unchanged and continue using keyed-in entries of government-wide (Fixed Asset and Long-Term Liability) data at the two-digit level. As a result, new “Right to Use Asset” and “Accumulated Depreciation – Right to Use Asset” codes are included in existing Fixed Asset fields on this page. Districts that include government-wide fund data within their Balance Sheet file upload must use all three digits of the Major Class Code.

GASB #96 PLACEHOLDER

Reserved for future use prior to implementation of GASB #96 in FY23.

ADDITIONAL RESOURCES

GASB Statement #87
GASB Statement #87 Implementation Guide 2019-3
GASB Statement #87 Account Code Changes and Additions (May 2022)

E.20 GASB #96 Supplemental Guidance

INTRODUCTION

This section is designed to communicate guidance to Michigan school districts related to the implementation of GASB Statement #96 – Subscription-Based Information Technology Agreements (SBITA). This Statement:

(1) defines a SBITA;
(2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability;
(3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and
(4) requires note disclosures regarding a SBITA.

For Michigan school districts, after applying the extension granted from GASB Statement #95, GASB #96 is effective for reporting periods beginning July 1, 2022 (fiscal year 2023).

OVERVIEW AND EXCLUSIONS FROM GASB #96

(Disclaimer – The guidance below is not intended to be a substitute for having a full understanding of all of the provisions under GASB #96 that could apply to your district. Please see GASB Statement #96 for additional support)

Prior to GASB #96, payments for the right to use SBITAs were typically handled as regular operating expenditures as a purchased service under appropriate function(s). Under this Statement and revised model of accounting for these agreements, the following excerpt now serves as the formal definition of a SBITA:

> *"A **SBITA** is defined as a contract that conveys control of the right to use another party's (a SBITA vendor's) information technology (IT) software, alone or in combination with tangible capital assets (the underlying IT assets), as specified in the contract for a period of time in an exchange or exchange-like transaction."*

It should be noted that GASB #96 applies to software used in any function of the district (finance, instruction, etc.).

Software that is not subscription-based is not subject to #96. For example, an agreement that provides the district with a perpetual license are generally subject to GASB #51.

Three primary considerations exist under this Statement that may exempt certain SBITAs from the new treatment outlined in this Section:

- First, **short-term SBITAs** (a SBITA that, at the commencement of the agreement term, has a maximum possible term of 12 months (or less), including any options to extend, regardless of their probability of being exercised) are not subject to GASB #96 changes. Short-term SBITA (as defined above) payments should continue to be recognized as outflows (purchased service) of resources based on payment provisions of the agreement.

- Second, any contracts with stand-alone tangible capital assets or a combination of a tangible capital asset and an insignificant software component are not subject to GASB #96 changes. Note that contracts involving the lease of tangible capital assets along with a software component may be subject to GASB #87 or #96 provisions, depending on the significance of the software component. Districts will need to apply professional judgement when the contract includes both software and tangible IT property to make a determination as to which component is most significant and therefore whether to apply GASB #87 or #96. See Paragraphs B10 to B12 in GASB #96 for additional information.

- Third, any government that provides the use of their IT system to another government is exempt from potential "lessor"-related accounting implications. Note that the governmental entity utilizing software of another governmental entity is still required to apply the provisions of GASB #96 to the arrangement.

In addition to the actual subscription payments, there may be other internal and/or external costs associated with the implementation of a SBITA that must be analyzed as to their proper accounting treatment (expense or account for as part of the SBITA asset).

Since contract terms, timing, payment arrangements, etc. vary greatly between SBITA vendors, our guidance and sample entries in the accounting manual are just for reference and to illustrate how GASB #96 is changing the overall topic of SBITAs. Your auditor should be able to help in reviewing specific terms of each of your SBITAs that fall under the GASB #96 and may be able to assist with the proper entries and financial statement presentation (at both fund level and government-wide) and the impact of paying for multiple years upfront vs. paying a multi-year agreement annually.

SBITA activities outside of making regular subscription payments will be grouped into the following **three stages**, and costs accounted for accordingly:

- **Preliminary Project Stage** – Activities such as evaluating alternatives, determining needed technology, and selecting a SBITA vendor. All outlays in this stage should be expensed as incurred.
- **Initial Implementation Stage** – Costs necessary to place the subscription asset into service. These should typically be capitalized as an addition to the asset.
- **Operation and Additional Implementation Stage** – Activities such as subsequent implementation activities, maintenance, and other activities related to ongoing operations related to the SBITA. These should be expensed as incurred unless certain capitalization criteria are met.

Training costs should be expensed as incurred, regardless of the stage in which they are incurred as opposed to being capitalized as an addition to the asset.

For agreements in which GASB #96 will apply, the school district must calculate the net present value of the future SBITA payments to be made over the SBITA Term, discounted using the rate charged by the vendor or incremental borrowing rate, and record the amounts following the illustrative journal entries as noted in the guidance below.

- SBITA Term – the noncancelable right to use an underlying IT asset **plus** the option to extend the SBITA if reasonably certain the option *will* be exercised, or the option to terminate the SBITA if reasonably certain the option *will not* be exercised.

SBITA contracts containing multiple components should be accounted for as separate SBITAs and nonsubscription components, if applicable, allocating the contract price across those components. If separate component prices were not provided or if it is not practical to estimate, these components may be accounted for as a single SBITA. An example of a separate component would be a service plan for software support. If the agreement separates the cost for the service plan, this portion would not be accounted for as part of the SBITA asset and liability (expensed as incurred each month). However, if there is no separate price listed for the service plan the district must apply professional judgement to estimate the cost of the service plan or apply the expedient provided for in GASB #96 which would allow the district to account for both the right to use the software and the service plan component as a single component. See Paragraphs B51 to B53 of GASB #96 for additional information.

KEY TERMINOLOGIES WITHIN THE STANDARD

SBITA: A contract that conveys control of the right to use another party's IT software, alone, or in combination with a tangible capital asset as specified in the contract for a period of time in an exchange or exchange-like transaction.

Right to use: The focus here should be on the non-cancellable right that the district has to access the IT software. If the vendor can make the choice to cancel or renew the contract, the right to use that asset ends at the point in time the vendor can make that decision.

Short-Term SBITA: At the commencement of the subscription term, the contract has a maximum possible term of 12 months or less including any options to extend (there is an exception for these agreements whereas the right to use subscription asset and liability are not recorded).

Subscription term: This is the period in which the government has the non-cancellable right to use the asset, including any options to extend, if it is reasonably certain the government will exercise that option. The likelihood of exercising a termination clause should also be considered, if it is unlikely the vendor or the district will exercise the clause, the full period should be included. (Example, a 5 year agreement is signed, but there is a clause that says the vendor or the district can terminate after the first year, the likelihood of that happening needs to be considered in determining if the term is 1 year or 5 years.)

Cancellable period: Periods in which both the government and the vendor have an option to terminate without permission from the other party, or both parties have to agree to extend are considered a cancellable period, and should be excluded from the subscription term.

INITIAL ADOPTION

Initial Adoption at 7/1/22 – Generally, for SBITAs that were already in place at 7/1/22, the net present value will be calculated based only on the remaining SBITA term for those agreements, and the journal entry is recorded in the full accrual fund only at 7/1/22. No initial entries are recorded in the fund statements for existing SBITAs at 7/1/22, only for SBITAs entered into after 7/1/22. For open SBITA agreements at the date of adoption, districts are permitted, but not required, to include in the measurement of the SBITA capitalizable outlays incurred prior to the implementation of GASB #96. These may include outlays from the initial implementation stage and the operation and additional implementation stage incurred prior to the implementation of this Statement. See Paragraph 64 of GASB #96 for further information. (Reminder – for SBITAs entered into after 7/1/22, there is no option. The guidance in GASB 96 must be followed in terms of how to account for other costs incurred related to a SBITA).

AUDIT CONSIDERATIONS

This Statement requires disclosure of descriptive information about a government's (district's) SBITAs. These include:

- Amount of the subscription asset
- Accumulated amortization
- Other payments not included in the measurement of a subscription liability
- Principal and interest requirements for the subscription liability
- Other essential information

It is recommended that districts discuss their SBITAs and materiality with their auditors before spending time on reclassification, journal entries, etc. Materiality must be considered for both the fund-level and government wide basis. Districts will likely need to accumulate a list of all of its SBITAs in order to determine the significance of the agreements compared to materiality. See Paragraph B9 of GASB #96 for additional information.

Net Present Value Calculation – It is recommended that districts have their auditor audit the discount rate that the district plans to use in the net present value calculation before producing all the present value calculations.

FINANCIAL INFORMATION DATABASE (FID) REPORTING CONSIDERATIONS

In December 2022, several additions and changes to account codes that may apply to SBITAs under GASB #96 were made to the Appendix of the Michigan Public School Accounting Manual for both government-wide and fund-level entries. See "GASB Statement #96 Account Code Changes and Additions (December 2022) under Additional Resources.

Beginning in FY23 Financial Information Database (FID) reporting, districts must use these new codes for the reporting of SBITA activities and asset and liability balances.

JOURNAL ENTRY EXAMPLES

The journal entries below illustrate how a $100,000, Elementary Instruction-related Subscription-Based Information Technology Arrangement (SBITA) may be recorded (note separate yet concurring entries at Governmental Fund and Government-Wide levels):

Governmental Fund - Initial Journal Entry – New SBITA		**Debit**	**Credit**
11-1-111-6940-xxx-0000-xxxxx-xxxx	Instruction – Capital Outlay – Subscription-Based Information Technology Arrangement (SBITA)	100,000	
11-0-597-0000-000-0000-xxxxx-xxxx	Other Financing Sources – SBITAs		100,000
	To record the other financing sources and capital outlay expense associated with a new SBITA (note – this is only for SBITAs entered into after 7/1/22)		

Government-wide - Initial Journal Entry – New SBITA		**Debit**	**Credit**
9x-2-295-xxxx-xxxx-xxxx-xxxx-xxxx	Right to Use Asset – Subscription-Based Information Technology Arrangement (SBITA)	100,000	
9x-2-597-xxxx-xxxx-xxxx-xxxx-xxxx	SBITA Obligation – Long-Term Portion		95,000
9x-2-101-xxxx-xxxx-xxxx-xxxx-xxxx	Cash (for initial implementation costs, if applicable)		5,000
	To record right to use SBITA asset and related liability, minus implementation costs (cash)		

Governmental Fund – SBITA Payment		**Debit**	**Credit**
11-1-511-7170-xxx-0000-xxxxx-xxxx	Principal - SBITA Payment	30,000	
11-1-511-7270-xxx-0000-xxxxx-xxxx	Interest Expense – Interest on SBITA	1,000	
11-2-101-xxx-xxxx-xxxx-xxxxx-xxxx	Cash		31,000
	To record first payment on right to use SBITA asset		

Government-wide - SBITA Payment and Amortization		Debit	Credit
9x-1-711-7730-xxx-0000-xxxxx-xxxx	Amortization expense - Right to use asset - SBITAs	5,000	
9x-2-296-xxxx-xxxx-xxxx-xxxx-xxxx	Accumulated amortization - Right to use asset - SBITAs		5,000
	To record amortization of the right to use SBITA asset		
9x-2-597-xxxx-xxxx-xxxx-xxxx-xxxx	SBITA Obligation – Long-Term Portion	30,000	
9x-1-511-7270-xxx-0000-xxxxx-xxxx	Interest Expense	1,000	
9x-2-101-xxxx-xxxx-xxxx-xxxx-xxxx	Cash		31,000
	To record payment on right to use SBITA asset		

Government-wide – Current vs. Noncurrent		Debit	Credit
9x-2-597-xxxx-xxx-xxxx-xxxxx-xxxx	SBITA Obligation – Long-Term Portion	30,000	
9x-2-497-xxx-xxxx-xxxx-xxxxx-xxxx	SBITA Obligation – Current Portion		30,000
	To reclassify the current portion of the SBITA liability at year-end		

GRANT EXPENDITURES AND JOURNAL ENTRIES

SBITA's entered into in the previous years:

Hypothetical situation 1: It is a June 30, 2023 fiscal year end and a three year SBITA was signed on 7/1/2021 which runs through 6/30/2024. It requires a $1,000 monthly payment.

The District has likely been recording payments prior to the implementation of GASB in a journal entry similar to the one below.

		Debit	Credit
11-1-125-3450-xxx-4350-xxxxx-xxxx	Software license	$ 1,000.00	
11-2-101-xxx-xxxx-xxxx-xxxxx-xxxx	Cash		$ 1,000.00

Upon determination that GASB 96 applies to this arrangement, the journal entry really should have been as follows: **Note, there is no grant code included in this entry, as the grant budgets do not allow for principal and interest to be charged.**

		Debit	Credit
11-1-511-7170-xxx-0000-xxxxx-xxxx	Principal - SBITA Payment	950.00	
11-1-511-7270-xxx-0000-xxxxx-xxxx	Interest Expense - Interest on SBITA	50.00	
11-2-101-xxx-xxxx-xxxx-xxxxx-xxxx	Cash		1,000.00

It is not as simple as posting a reclassification entry to move the expenditure from purchased services to principal and interest as principal and interest cannot be charged to the grant.

		Debit	Credit
11-1-511-7170-xxx-4350-xxxxx-xxxx	Principal - SBITA Payment	$ 950.00	
11-1-511-7270-xxx-4350-xxxxx-xxxx	Interest Expense - Interest on SBITA	$ 50.00	
11-1-125-3450-xxx-4350-xxxxx-xxxx	Software license		$ 1,000.00

Instead, the reclassification "net zero" entry should be posted as noted below. This provides a resolution so that when expenditures are run for grant code 4350, the software license expenditure will be included as a grant expenditure in line with the budgeted usage of the funds, and the general ledger will agree to the Final Expenditure Report. However, when looking at the total software license cost the entry below will net with the original entry to zero out any amounts charged to the software license account, and instead will properly show the expenditure in principal and interest to align with the requirements of GASB 96.

		Debit	Credit
11-1-511-7170-xxx-0000-xxxxx-xxxx	Principal - SBITA Payment	$ 950.00	
11-1-511-7270-xxx-0000-xxxxx-xxxx	Interest Expense - Interest on SBITA	$ 50.00	
11-1-125-3450-xxx-0000-xxxxx-xxxx	Software license		$ 1,000.00

Hypothetical Situation 2 - It is a June 30, 2023 fiscal year end and a two year SBITA was signed on 10/1/2021 which runs through 9/30/2023, with a $3,000 monthly payment. The entire amount of $72,000 was prepaid at the time the agreement was signed. As of June 30, 2022 there was a remaining prepaid of $45,000. The current grant that the expenditure is charged to runs through 6/30/2023.

Because the SBITA was entered into in a prior year, upon GASB 96 implementation, the prepaid will be removed and offset against fund balance, as the capital outlay expenditure for the entire agreement should have been recognized in the year the right to use the asset began under GASB 96. The journal entry to record the transaction would be as follows on July 1, 2022:

		Debit	Credit
11-2-192-0000-xxx-0000-xxxxx-xxxx	Prepaid Expenditures		$ 45,000.00
11-2-711-0000-xxx-0000-xxxxx-xxxx	Non Spendable Fund Balance	$ 45,000.00	

For ease in visualizing the proper accounting treatment, assume the prepaid expenditure account had not been adjusted the entire year or the prior period adjustment made, and that the District budgeted for 12 months of the SBITA payment to a grant as a purchased service. The entry to account for GASB 96 is as follows. This accounts for the prior period adjustment, as well as the net zero entry to have a zero dollar impact to the software license expenditure, while still charging the cost to the grant in line with the budget.

		Debit	Credit
11-2-711-0000-xxx-0000-xxxxx-xxxx	Non Spendable Fund Balance	$ 45,000.00	
11-2-192-0000-xxx-0000-xxxxx-xxxx	Prepaid Expenditures		$ 45,000.00
11-1-111-3450-xxx-4350-xxxxx-xxxx	Software license	$ 36,000.00	
11-1-111-3450-xxx-0000-xxxxx-xxxx	Software license		$ 36,000.00

SBITA entered into in the current year:

Hypothetical situation 3: It is a June 30, 2023 fiscal year end and a two year SBITA was signed on 7/1/2022 which runs through 6/30/2024. It requires a $2,000 monthly payment. No amounts were prepaid as part of the agreement. The current grant that the expenditure is charged to runs through 6/30/2023.

The District has likely been recording payments prior to GASB 96 determination in a journal entry similar to the one below.

		Debit	Credit
11-1-111-3450-xxx-4350-xxxxx-xxxx	Software license	$ 2,000.00	
11-2-101-xxx-xxxx-xxxx-xxxxx-xxxx	Cash		$ 2,000.00

Under GASB 96 it was determined that this arrangement is a SBITA and the journal entry at the onset of the agreement should have been as follows.

		Debit	Credit
11-1-111-6940-xxx-4350-xxxxx-xxxx	Instruction - Capital Outlay SBITA	24,000.00	
11-1-111-6940-xxx-0000-xxxxx-xxxx	Instruction - Capital Outlay SBITA	24,000.00	
11-0-597-0000-000-0000-xxxxx-xxxx	Other Financing Sources - SBITA		48,000.00

NOTE – Based on current U.S. Department of Education guidance, software licenses can only be charged to the grant through the period of availability and liquidity. The payments made during 2024 cannot be charged to a grant ending in 2023, as the funds would not be liquidated until after the grant period ended. CAUTION – be careful of cash management as the full software license has been charged to the grant but payments for the software licenses are made monthly.

Assuming the District has only accounted for the cash payments as purchased services throughout all of FY 2023, as noted below ($2,000 per month x 12 months = 1 year activity):

Original Activity:

		Debit	Credit
11-1-125-3450-xxx-4350-xxxxx-xxxx	Software license	$ 24,000.00	
11-2-101-xxx-xxxx-xxxx-xxxxx-xxxx	Cash		$ 24,000.00

The following entry would need to be made at year end, and a budget adjustment should be requested from the Grantor to move amounts from purchased services to capital outlay.

Correcting Entry:

		Debit	Credit
11-1-111-6940-xxx-4350-xxxxx-xxxx	Instruction - Capital Outlay SBITA	$ 24,000.00	
11-1-111-6940-xxx-0000-xxxxx-xxxx	Instruction - Capital Outlay SBITA	$ 24,000.00	
11-0-597-0000-000-0000-xxxxx-xxxx	Other Financing Sources - SBITA		$ 48,000.00
11-1-111-3450-xxx-4350-xxxxx-xxxx	Software license		$ 24,000.00
11-1-511-7170-xxx-0000-xxxxx-xxxx	Principal - SBITA Payment	$ 22,800.00	
11-1-511-7270-xxx-0000-xxxxx-xxxx	Interest Expense - Interest on SBITA	$ 1,200.00	

Note: In future years, grant budgets should be developed based on determining if the arrangement is a purchased service or capital outlay. Note that the entry above moves the expenditure charged to the grant from a purchased service to a capital outlay, and does not charge principal and interest to the grant.

Assuming the same facts and circumstances as above, but the budget is unable to be amended, the journal entry would look different. The entire amount of the capital outlay would be put to a non-grant code, and when expenditures are run for grant code 4350, the software license expenditure will be included as a grant expenditure in line with the budgeted usage of the funds, and the general ledger will agree to the Final Expenditure Report. Furthermore, when looking at the total software license cost the entry below will net with the original entry to zero out any amounts charged to the software license account, and instead will properly show the expenditure in principal and interest to align with the requirements of GASB 96.

		Debit	Credit
11-1-111-6940-xxx-0000-xxxxx-xxxx	Instruction - Capital Outlay SBITA	$ 48,000.00	
11-0-597-0000-000-0000-xxxxx-xxxx	Other Financing Sources - SBITA		$ 48,000.00
11-1-511-7170-xxx-0000-xxxxx-xxxx	Principal - SBITA Payment	$ 22,800.00	
11-1-511-7270-xxx-0000-xxxxx-xxxx	Interest Expense - Interest on SBITA	$ 1,200.00	
11-1-111-3450-xxx-0000-xxxxx-xxxx	Software license		$ 24,000.00

Hypothetical Situation 4 is a variation of situation #3, but includes a prepaid component. It is a June 30, 2023 fiscal year end and a two year SBITA was signed on 7/1/2022 which runs through 6/30/2024. The entire amount was prepaid as of June 30, 2022. The current grant that the expenditure is charged to runs through 6/30/2023.

As of July 1, 2022, the entry to record the SBITA should have been as noted below. Since the District's right to use the SBITA did not occur until FY 2023, the entire amount of the prepaid will be removed as of July 1 and recognized as a capital outlay in FY 2023. If the district originally budgeted for the $24,000 payments in 2023 to be in purchased services, this will result in a required budget amendment for the grant, or a net zero entry to be posted as described in situation 3.

Original Activity in FY 2022:

		Debit	Credit
11-2-192-0000-xxx-0000-xxxxx-xxxx	Prepaid Expenditures	$ 48,000.00	
11-2-101-xxx-xxxx-xxxx-xxxxx-xxxx	Cash		$ 48,000.00

Adjustment Entry in FY 2023 Possibility 1:

		Debit	Credit
11-1-111-6940-xxx-4350-xxxxx-xxxx	Instruction - Capital Outlay SBITA	$ 24,000.00	
11-1-111-6940-xxx-0000-xxxxx-xxxx	Instruction - Capital Outlay SBITA	$ 24,000.00	
11-2-192-0000-xxx-0000-xxxxx-xxxx	Prepaid Expense		$ 48,000.00

Note: The above entry is one possible solution. In many cases this is the appropriate approach, charging only the expenditures relating to FY 2023 to the grant ending in 2023. However, on June 26, 2023, additional guidance was issued that allows for the entire capital outlay expenditure to be charged to the grant under limited circumstances , if the District adequately documents at the time the contract is entered into, how they met that criteria. In order to take this approach, Districts should review the guidelines closely in the linked document to verify it can be applied. In those limited circumstances, the entire amount may be charged to the grant in FY 2023 with the entry as follows:

Adjustment Entry FY 2023 Possibility 2:

		Debit	Credit
11-1-111-6940-xxx-4350-xxxxx-xxxx	Instruction - Capital Outlay SBITA	$ 48,000.00	
11-2-192-0000-xxx-0000-xxxxx-xxxx	Prepaid Expense		$ 48,000.00

FREQUENTLY ASKED QUESTIONS

1. **The District is being provided access to the SBITA, free of charge. Does GASB 96 apply?**
   GASB 96 does not apply, as this would not meet the criteria of an exchange or exchange-like transaction as noted in paragraph 6 of GASB 96 and therefore does not meet the definition of a SBITA.

2. **The agreement does not specify an end date as to when the District's right to use the asset expires. Does GASB 96 apply?**
   Paragraph B7 in GASB 96, clarifies that perpetual licensing arrangements do not meet the definition of a SBITA, and therefore GASB 96 excludes perpetual licensing arrangements.

3. **The agreement indicates that the license automatically renews until cancelled. Is this considered a perpetual license?**
   Question 4.7 in the 2023-1 GASB Implementation Guide, clarifies that it is not a perpetual license. A provision under which a licensing agreement automatically renews until cancelled is an option to terminate the agreement at each renewal date. An agreement that includes an option to terminate is not a purchase, whereas a perpetual license is a purchase in which a government is granted a permanent right to use the vendor's computer software. Therefore, a licensing agreement for a vendor's computer software that automatically renews until cancelled does not provide a perpetual license.

4. **When determining the subscription liability and asset value, what payment amounts should be considered?**
   The measurement of the liability should include any fixed payments, variable payments that depend on a index or rate, variable payments that are fixed in substance, any termination penalties if it's likely the District will exercise that option, any subscription contract incentives, and any other payments that the District is reasonably certain ill be required. What is NOT included is any variable payments that are depending on future performance, such as the number of users.

   The measurement of the asset should include the determination of the subscription liability plus any payments associated with the contract made at the commencement of the term and any capitalizable initial implementation costs.

5. **How should contracts that contain a subscription component and a non-subscription component be accounted for? As an example, the District is paying for a service the vendor is providing, such as payroll processing, maintenance, or data processing as well as access to an IT program.**
   The subscription components need to be broken out of the agreement to comply with GASB 96. Please refer to paragraphs 44-49 in GASB 96 for guidance on how to do allocate the costs between the components. Additionally look at the terms of the agreement between the ISD and the LEA. If the agreement is written that the ISD is providing the services, and there is no fee being charged to access the software program, this would be a service agreement and not a subscription agreement.

6. **Does GASB 96 apply to ISD's that provide the right to use their IT software to LEAs?**
   Paragraph 4b indicates that GASB 96 does not apply to Governments that provide the right to use their IT software and associated tangible capital assets to other entities through SBITAs. This means that the standard applies to the end user of the IT program, but excludes Governments that might otherwise be considered a software vendor. The LEA will still need to consider if they have a right to use the SBITA, but the ISD will not be required to set up a receivable for the subscription term.

ADDITIONAL RESOURCES

GASB Statement #96 Summary
GASB Statement #96 Account Code Changes and Additions (December 2022)