



Ehlers School Finance Seminar

Accounting and Auditing Update

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Single Audit Update



Single Audit Update

- U.S. Office of Management and Budget (OMB) issued “Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Audits”
 - Supersedes All or Parts of Eight Circulars
 - Consolidates Federal Cost Principles, Administrative Principles, and Audit Requirements
 - “Super or Omni Circular”
- Effective Dates
 - New procurements requirements were effective beginning July 1, 2018 (Fiscal 2019). A three year grace period was allowed for these requirements.



Single Audit Update

Procurement:

- Must follow one of the five procurement methods outlined in the Uniform Guidance including small purchase procedures which are subject to the Simplified Acquisition Threshold, micro-purchases, sealed bids, competitive proposals, and noncompetitive proposals.

Single Audit Update

Procurement

Procurement "Claw" (Sections 200.317-326)





Single Audit Update

Procurement

- Micro purchases
 - \$10,000 aggregate (\$3,500 prior to 6/20/18)
 - There does not need to be quotations
 - Equitable distribution among qualified vendors
- Small purchases
 - Simple and informal procurement methods
 - Not more than the simplified acquisition threshold - currently \$250,000 (\$150,000 prior to June 20, 2018)
 - Price and rate quotations must be obtained from adequate number of qualified sources
 - **Conflicts with MN Bid Laws** — (\$175,000 effective 8/1/18)



Single Audit Update

Procurement

- Sealed bids
 - Above simplified threshold – greater than \$175,000
 - Preferred for construction projects
 - Must be publicly advertised
- Competitive proposals
 - Above simplified threshold – currently \$175,000
 - More than one source for proposal
 - Usually used for fixed fee or cost reimbursement
 - A written method of evaluation and selection
 - Award must go to “most advantageous” proposal



Single Audit Update

Procurement

- Sole source – must meet at least one of the criteria
 - Single source availability
 - Public emergency
 - Written request has been made and approved by federal or pass-through entity
 - Competition is determined to be inadequate
- Written documented procurement procedures which reflect applicable State and local laws, provided they conform to applicable Federal law.



Legal Compliance Update

Summary of Significant Changes to Minnesota Legal
Compliance Audit Guide



Legal Compliance Manual

- Contracting – Bid Laws
 - Effective August 1, 2018
 - Bidding threshold changed from \$100,000 to \$175,000
 - Quotes now required for contracts from \$25,000 to \$175,000.
 - Threshold change from \$100,000 to \$175,000 for the need to obtain Contractor's Bonds on Bids.
- Group Insurance Bids
 - School Districts participating in the Public Employee Insurance Program (PEIP) is exempt from requirements of Minn. Stat. Section 471.6161. Must now follow Minn. Stat. Section 43A.316 Subd. 10.



Yellow Book Update

U.S. Government Accountability Office (GAO)
Government Auditing Standards



Auditor Independence

- No significant changes to standard
- Activities that impair independence
 - Preparing accounting records
 - Determining journal entries without management approval
 - Authorizing entity's transactions
 - Preparing source documents without management's approval
- Effective Year Ended June 30, 2020



Auditor Independence

- Preparation of financial statements
 - Non-audit service
 - Creates significant threats to auditor's independence
 - Document safeguards applied to eliminate or reduce threats to an acceptable level
 - Document SKE (Skills, Knowledge, and Expertise)
 - Management's ability to effectively oversee these services
 - Determine reasonableness of the results
 - Recognize a material error, omission, or misstatement
 - Designate an individual who possesses suitable SKE to oversee services
 - Evaluation differs from evaluation of District's internal controls



GASB #75

Accounting and Financial Reporting for
Postemployment Benefit Plans Other Than Pensions
(OPEB)



GASB Statement #75 – OPEB Plans

- Effective Date – Year ended June 30, 2018
- Replaces GASB Statement #45 and #57
- Statement includes all OPEB Liabilities
- Total Liability less the amount of OPEB plan fiduciary net position
- Outlines methods and assumptions required to be used in the calculations of the benefits and projected liabilities
- Confirmed the use of “Implicit Rate Subsidy”



GASB Statement #75 – OPEB Plans

- OPEB includes:
 - Postemployment health care benefits (medical, dental, etc.)
 - Other forms of postemployment benefits (death, life, insurance, disability, long-term care)
 - Unused sick leave converted to health care benefit payments
- Actuary calculations will need to be updated annually
- Based on actuarial valuation obtained at least biannually dated no more than 30 months prior to the fiscal year end of the school
- No significant changes to accounting for OPEB in fund based financial statements



Student Activity Accounting



Student Activity Accounting

Financial Reporting Changes

- GASB Statement #84 and the related implementation guide is clear that student activities are required to be reported in the District's General Fund or Special Revenue Fund (MDE specified the General Fund)
- Based on this guidance, Minnesota School Districts will no longer be allowed to report student activities not under Board Control



Student Activity Accounting

GASB Statement #84 Implementation Guide

- Administrative involvement with student activities that the District controls precludes treatment as a Fiduciary Fund
- Administrative involvement exists if:
 - The District establishes fees charged by clubs to their members
 - The District establishes specific policies or guidelines governing expenditures
 - The District requires approval of the board, school administration, or faculty advisors for all expenditures
 - The guidelines are established by the state and the District is required to comply
- Administrative involvement does not exist if:
 - The students and/or their representative (parents) establish a club, fundraise, decide how funds can be used, and approve spending without approval of the District



Student Activity Accounting

To align MN Statutes with GASB Statement #84, Fiduciary Activities

- Proposed changes are being made to MN Statutes 123B.49
 - The Board must take control of student activities
 - School Districts must restrict revenue for student activities and spend the revenue only for student activities
- Restricted fund balance will not impact Statutory Operating Debt (SOD) calculation



Student Activity Accounting

UFARS Changes (Tentative) (Not Approved)

- Balance Sheet Code 401 – Restricted for Extracurricular Activities
- Finance Code 301 – Extra-Curricular Activities
 - Record revenue and expenditures for student activities
- Program 291 – Co-Curricular Activities (Non-Athletics)
 - Redefined under new guidance
- Program 298 – Extra-curricular Activities
 - Student Activities as defined under MAFA Manual



GASB #84

Fiduciary Activities



Fiduciary Activities

The GASB issued Statement #84 to clarify when a government has a fiduciary responsibility and is required to present fiduciary fund financial statements

Existing standards require reporting of fiduciary responsibilities but do not define what they are; use of private-purpose trust funds and agency funds is inconsistent; business-type activities are uncertain about how to report fiduciary activities

Effective for Year Ended June 30, 2020



Fiduciary Activities

An activity is a fiduciary activity of a government if:

- (1) the government controls the assets of the activity,
- (2) those assets are not derived solely from the government's own-source revenue, and
- (3) one of the following is met:
 - The assets are administered through a trust agreement or equivalent arrangement in which the government itself is not a beneficiary
 - The assets are to be used for the benefit of individuals that are not required to be residents or recipients of the government's good and services as a condition of being a beneficiary
 - The assets are to be used for the benefit of organizations or other governments that are neither part of the financial reporting entity nor recipients of the government's goods or services
 - The assets result from a pass-through grant for which the government does not have administrative or direct financial involvement in the program



Fiduciary Activities

Reporting Fiduciary Activities

- New Definitions for pension trust funds, investment trust funds, and private purpose trust funds
 - Trust agreements should be present for an activity to be reported in a trust fund
- Custodial funds would report fiduciary activities for which there is no trust or equivalent arrangement
- Reporting for OPEB Trusts clarified
- Generally need to evaluate control, administrative involvement, and direct financial involvement to determine if activity meets the new definition of a fiduciary activity



Fiduciary Activities

Control – Government established control if it holds the assets or directs the use or employment of the assets

Administrative Involvement – monitors compliance of the activity with established requirements, determines eligibility of expenditures, or exercises discretion over use of assets

Direct financial involvement – liable for disallowed costs



Fiduciary Activities

Financial Reporting Changes

- Custodial funds include a statement of Fiduciary Net Position and a Statement of Changes in Fiduciary Net Position
- Additions and Deductions will be required to be reported
- No longer allowed to use Agency Funds
- Accrual Basis of Accounting
 - Receivables and Payables will need to be accounted for
- May require further audit procedures



Fiduciary Activities

Action items -

- Governments should evaluate all activities currently reported in fiduciary funds to determine if activity continues to meet the definition of fiduciary activities
- Governments will need to determine treatment of activities like fiscal host, cooperatives, joint powers, flex accounts, scholarship funds, etc.
- Governments may find that student activity funds that are currently reported in a regulatory basis financial report are now required to be reported in a governmental fund (General Fund)



GASB #87 - Leases

GASB Statement #87 on Leases improves existing standards on lease accounting and financial reporting

Effective for the year ended June 30, 2021



Leases

Prior Lessee Classification of Leases includes two primary classification of leases

A. Capital leases (meet one of four criteria)

1. Transfer of ownership at conclusion
2. Bargain purchase option
3. Lease term \geq 75% of economic life of asset
4. PV of future minimum lease payments \geq 90% of FMV

B. Operating leases (all other leases)



Leases

Definition of a Lease

- A contract that conveys control of the right to use another entity's nonfinancial asset (the underlying asset) as specified by the contract for a period of time in an exchange or exchange-like transaction.
- Control requires both of the following:
 - – 1) the right to obtain the present service capacity from use of the underlying asset, and
 - – 2) the right to determine the nature and manner of use of the underlying asset
- Control applied to the right-to-use lease asset (a capital asset) “specified in the contract”
- Control criteria NOT limited to contracts that convey substantially all of the present service capacity from use of the underlying asset
- Right-to-use lease assets include rights to use underlying assets for portions of time, such as certain days each week or certain hours each day



Leases

- Unified Reporting Model for Leases
- No classification of leases into operating/capital or other categories
- Underlying assumption that leases are financings
- Exceptions (lessors and lessees)
 - Short-term leases (12 months or less)
 - Leases that transfer ownership and do not contain termination options
 - Leases of assets that are investments
- Standardized Lessor and Lessee Disclosures in Financial Reports



Leases

Accounting Guidance:

- Lessee
 - Record an intangible asset representing the right to use an asset for a period of time
 - Record a liability for present value of future payments
 - Amortize the intangible asset to expense over the lease term
- Lessor
 - Record a lease receivable and a corresponding deferred inflow for the future lease payments.
 - Initial measurement of the lease receivable is equal to the present value of lease payments expected to be received during the lease term.
 - Recognize revenue over the lease term in a systematic manner