



# SCHOOL DISTRICT ACCOUNTING & AUDITING UPDATE

PRESENTED BY:

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EHLERS' SCHOOL FINANCE SEMINAR 2023

# CURRENT ENVIRONMENT

Considerations for Accounting & Auditing

# FISCAL 2022 AUDITS

- Current Environment
  - Implementation of GASB #87 on Leases
  - Accounting, Compliance, and Reporting of Federal Awards
  - Turnover in Finance and Accounting Personnel
  - Availability of Experienced Governmental Accountants and Auditors
  - Increased Costs to School Districts in Areas Impacted by Pandemic
  - Lack of Enrollment Rebound
  - Extension of Time to File Single Audit of Federal Awards
  - Findings in Single Audits of Federal Awards





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# LEGAL COMPLIANCE UPDATE

Summary of Significant Changes to Minnesota Legal Compliance Audit Guide

# DEPOSITORIES OF PUBLIC FUNDS

- In the Depositories of Public Funds and Public Investment section, the following question was added:
  - “If the School used a sweep account, did the timing of the sweep take place so that all amounts on deposit at the end of the banking day were protected by deposit insurance, bond, or pledged collateral?”

# LEGAL COMPLIANCE MANUAL

## Retainage requirements

- Minnesota Statutes § 15.72. and § 541.051, Subd. 1(a)
  - The public contracting agency is permitted to continue to withhold the following two amounts even after the 60-day period:
    1. up to 250 percent of the cost to correct or complete work known at the time of substantial completion, and
    2. the greater of \$500 or 1 percent of the value of the contract pending submission of final paperwork.
  - The first amount must be released within 60 days of work completion. The second must be released within 60 days of submission of final paperwork.



# LEGAL COMPLIANCE MANUAL

## Minnesota Statutes § 123B.195

### BOARD MEMBERS' RIGHT TO EMPLOYMENT

#### Change from \$8,000 to \$20,000

- – a School Board member may be newly employed or may continue to be employed by a school district as an employee only if there is a reasonable expectation at the beginning of the fiscal year or at the time the contract is entered into or extended that the amount to be earned by that officer under that contract or, employment relationship will not exceed \$20,000 in that fiscal year. Notwithstanding Section [122A.40](#) or [122A.41](#), or other law, if the officer does not receive majority approval to be initially employed or to continue in employment at a meeting at which all School Board members are present, that employment is immediately terminated and that officer has no further rights to employment while serving as a School Board member in the district.



# LEGAL COMPLIANCE MANUAL

Minnesota Statutes Section 123B.61.

## Certificates of Indebtedness or Capital Notes

- If a district used an excess amount in the debt redemption fund to retire certificates or capital notes, the district cannot have an outstanding capital loan under Minnesota Statutes 126C.69.





# SINGLE AUDIT UPDATE

Office of Management and Budget (OMB)

# SINGLE AUDIT UPDATE

## ■ Audit Implications

- Many organizations had single audits for the first time
- Determining effect of new funding on major program determination
  - ❑ Some programs were considered major, due to higher audit risk from changes in internal controls, personnel, or systems
  - ❑ Some organizations had multiple major programs audited, due the significance of new funding
- Subrecipient Monitoring
  - ❑ Was applicable for the first time for many Districts
  - ❑ Higher risk area for pass-through entity
- Changes in internal controls for part of the year may result in:
  - ❑ Need for more internal control testing due to control changes
  - ❑ Potential for increased compliance sample sizes if controls cannot be relied upon
  - ❑ Increased documentation, understanding and testing



# SINGLE AUDIT UPDATE

## ■ Audit Implications

- Challenges with gaining an understanding of funding received and preparation of Schedule of Expenditures of Federal Awards
- Many nontraditional awards received
- The Schedule of Expenditures of Federal Awards will include the amount of donated Personal Protective Equipment (PPE) received in federal assistance
  - The amount received is not counted in major fund determination as these amounts are not required to be audited
- Programs and spending amounts harder to identify



# SEFA CHANGES

## IMPACTING MAJOR PROGRAM DETERMINATION

- 2022 Higher Risk Programs Identified by Federal Government

Agency	Assistance Listing (CFDA) Number	Title
Education*	84.425	Education Stabilization Fund
FCC*	32.009	Emergency Connectivity Fund Program
HHS*	93.461	Testing for the Uninsured
HHS*	93.498	Provider Relief Fund
HHS**	93.778/93.777/93.775	Medicaid Cluster
Transportation**	20.106	Airport Improvement Program
Transportation**	20.500/20.507/20.525/20.526	Federal Transit Cluster
Transportation**	20.315	National Railroad Passenger Corporation Grants
Treasury*	21.023	Emergency Rental Assistance
Treasury*	21.027	Coronavirus State and Local Fiscal Recovery Funds



# SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

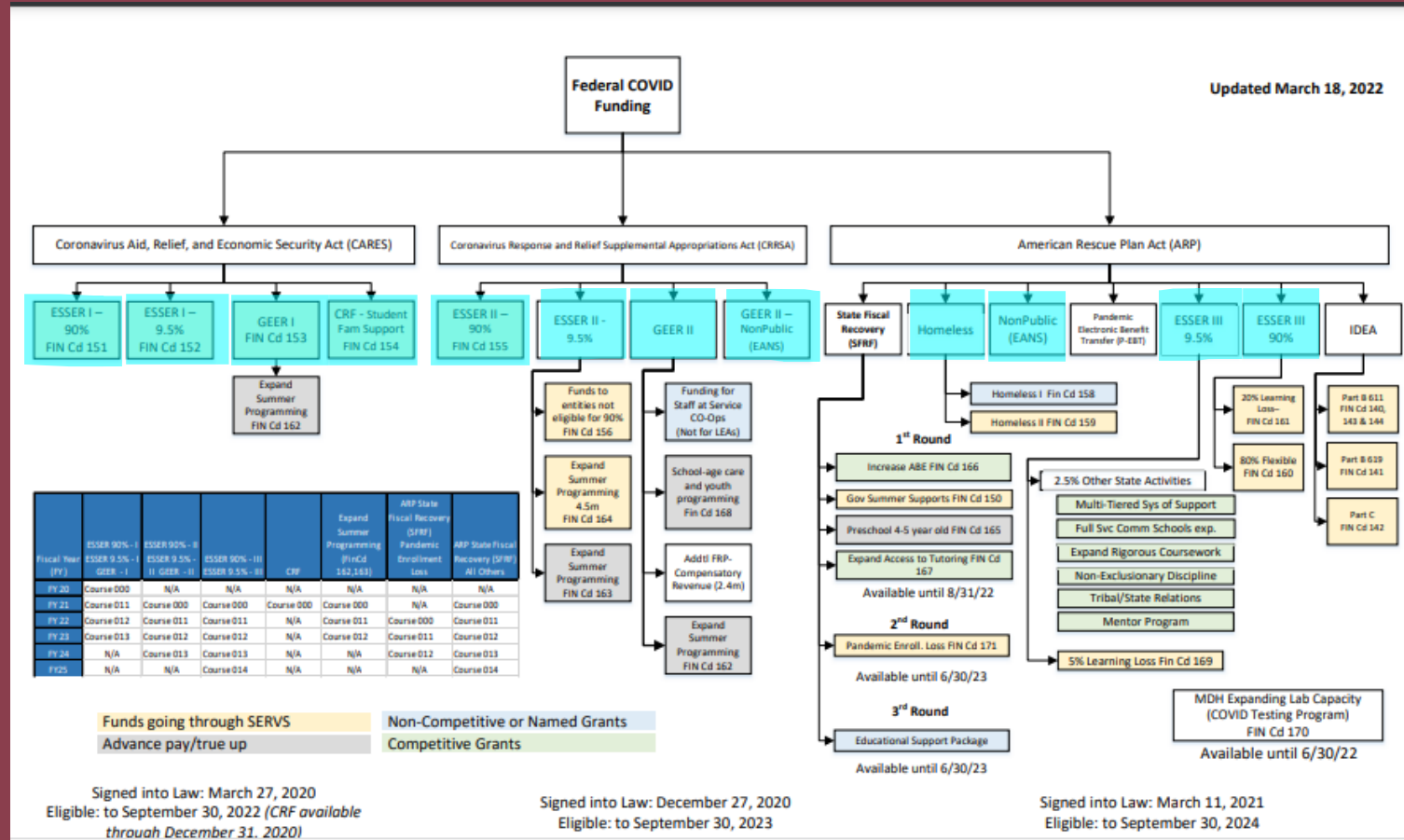
## STATEMENTS & FOOTNOTES

- Footnote Commodities Received
- Footnote any transfers of federal awards
- Disclose all clusters – even if you only have one program in the cluster
- “COVID-19” use – all new programs and existing programs from:
  - Coronavirus Preparedness and Response Supplement Appropriations Act
  - Families First Coronavirus Response Act
  - Coronavirus Aid, Relief, and Economic Security Act (CARES)
  - Coronavirus Response and Relief Supplemental Appropriations Act (CRRSA)
  - American Rescue Plan Act (ARPA)



# MDE FEDERAL FLOW CHART

REFER TO MDE WEBSITE FOR MOST RECENT VERSION



<https://education.mn.gov/MDE/dse/health/covid19/cares/>



# EMERGENCY CONNECTIVITY FUND

## AN OVERVIEW

- ALN 32.009
- Fin 599 – Direct from Federal Communications Commission
- ARP Act – High Risk Program
- Provides funding for schools to meet the otherwise unmet connectivity needs of students and school staff during the pandemic
- Connecting and facilitating remote learning for students and school staff who would otherwise lack adequate access to connected devices and broadband internet access connectivity during the pandemic



# EMERGENCY CONNECTIVITY FUND

## ALLOWABLE ACTIVITIES

### Eligible Uses/Users

- Equipment and services used for educational purposes
- Primarily off-campus – remote learning
- Used by Students or School Staff
- Must have lacked access to connected devices and/or broadband internet services

### Eligible Equipment/Services

- Wi-Fi hotspots
- Modems
- Routers
- Devices that combine a modem and a router
- Connected devices
- Fixed or mobile broad band internet access services
- Reasonable costs of construction of new networks





# EMERGENCY CONNECTIVITY FUND

## ALLOWABLE ACTIVITIES

### Eligible Uses/Users

- Prohibits schools from seeking reimbursement for equipment/services used solely at school
- Allowable: home, library, churches, community centers, and other off-campus locations where engaged in remote learning



# EMERGENCY CONNECTIVITY FUND

## ALLOWABLE ACTIVITIES

### Tests of Compliance

- Obtain FCC Form 471 application
  - Review for authorized signature
  - Review for required certifications
- Obtain Award Letter
  - Review for equipment/services approved
  - Review for funding amount committed
- Sample transactions
  - Review for allowability based on supplement, FAQs, and award letter
  - Verify equipment/services **were received** before requesting reimbursement
  - If service provider purchased – verify payment made to vendor within 30 days of receipt of funds from FCC



# EMERGENCY CONNECTIVITY FUND

## ALLOWABLE COSTS

### Allowable Costs

- \$400 maximum support for connected devices
- \$250 maximum for wi-fi hotspots

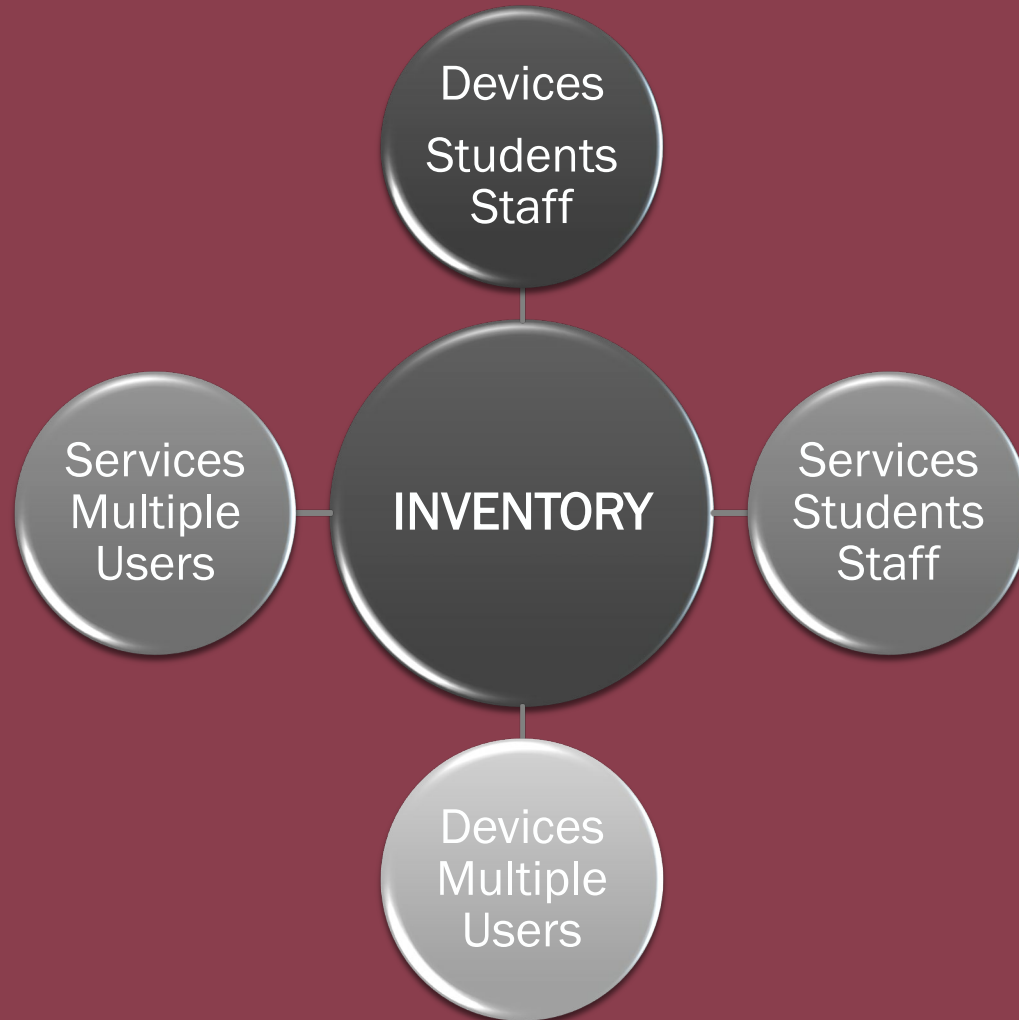
### Unallowable Costs

- Desktop computers
- Mobile phone, includes smartphones
- More than one connection per user
- More than one connected device per user
- Eligible equipment/services for use solely at the school
- Extra inventory on hand in anticipation of damage or breakage
- Mobile hotspot/internet services for non-usage periods of time



# EMERGENCY CONNECTIVITY FUND

## Equipment



- Verify they followed inventory requirements listed in Part 4 for each Device/Service
- Verify NO resale!

# EMERGENCY CONNECTIVITY FUND

## PERIOD OF PERFORMANCE

- Equipment delivered and services performed between



03/01/20 – 06/30/23

- Reimbursement Requests submitted w/in 60 days



Latter of date of funding  
commitment decision letter  
or delivery date

# EMERGENCY CONNECTIVITY FUND

## SPECIAL TESTS AND PROVISIONS

### Eligible Entity

- District or Charter meets definition of a school under E-rate OR
- District or Charter meets definition of a school under ESEA

### Restricted Purpose

- Unmet Need
  - Student/Staff had no device or no access to internet service
- Per-location / Per-user limitations
  - Only 1 device or hotspot per student/staff
  - Only 1 fixed broadband connection/location
  - Refer to inventory listing



# EMERGENCY CONNECTIVITY FUND

## SPECIAL TESTS AND PROVISIONS

### Restricted Purpose Tests for Unmet Need and Per Location/User Limits

- Only request reimbursement for eligible equipment and services provided to students/staff who would otherwise lack connectivity sufficient to engage in remote learning at off campus locations
- Flexibility in initial estimate
- Reimbursement request for actual unmet need
- Eligible equipment/services only
- Utilize the inventory to assist with testing actual vs estimate
- Utilize the inventory to assist with testing – more than one serial # per name/location



# EMERGENCY CONNECTIVITY FUND

## RISKS AND CONCERNS

- Program is new to everyone – Feds, District, Auditors
- IT Dept. might be overseeing award and unfamiliar w/typical federal program requirements – tracking, suspension/debarment, reporting, lower procurement thresholds, etc.
- Finance Dept. might not know of existence – potentially no cash transactions involved
- Could be confused as E-rate money – not subject to single audit
- District and Vendor could apply – reimbursed twice





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# STATE FISCAL RECOVERY FUND

ALN 21.027

# SLFRF: ALLOWABLE COSTS

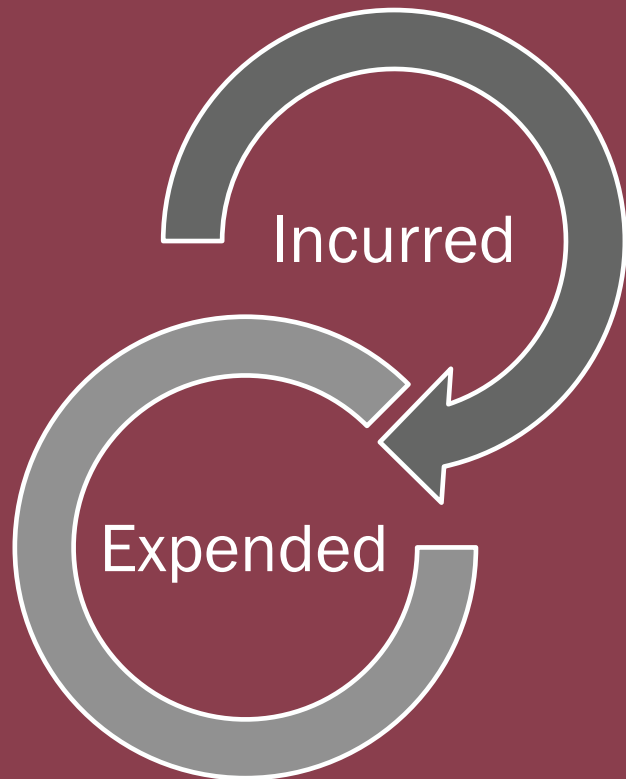
## COMPLIANCE REQUIREMENTS

- Must be reasonable and allocable
- Reasonable share of audit costs (single audit)
- Must have IC's and effective monitoring to ensure compliance w/Subpart E Cost Principles
- Administrative Costs – direct or indirect
  - Verify if any indirect costs and MDE's approval of rate



# SLFRF: PERIOD OF PERFORMANCE

## INCURRED VS EXPENDED



*Incurred by:*

**Date of award - December 31, 2024**

- Funds obligated;
- Forward looking or prospective use of funds

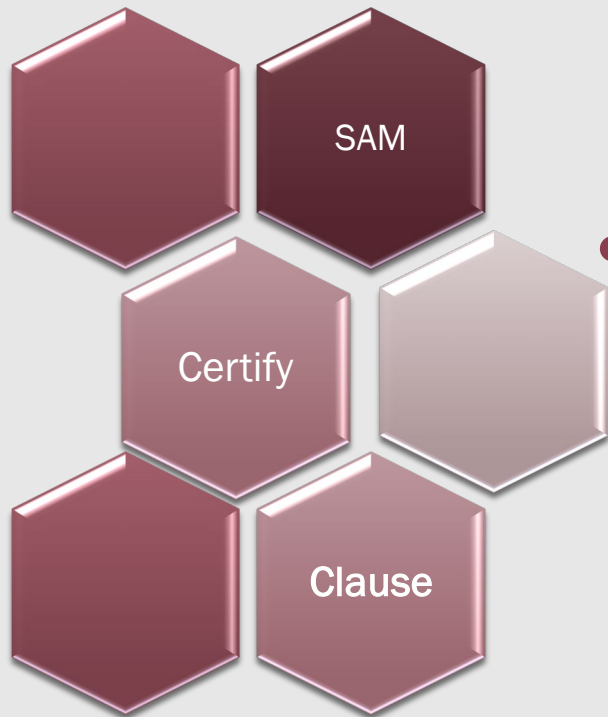
*Expended by:*

**December 31, 2026**

- “Obligations liquidated”

# SLFRF: SUSPENSION & DEBARMENT

## DEFINED AND THRESHOLDS



- 31 CFR 19.300
  - Covered transaction = contract for goods or services expected equal or exceed \$25,000
  - 3 ways to comply
- Testing
  - Written UG policy prohibiting
  - Documentation of compliance
  - Reperformance on sam.gov exclusions list

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# EDUCATION STABILIZATION FUND

ALN 84.425

# EDUCATION STABILIZATION FUND

## ALLOWABLE ACTIVITIES

- Determining Allowability:
  - Is it intended to prevent, prepare for, or respond to the COVID-19 pandemic, including its impact on the social, emotional, mental health and academic needs of students?
  - Does it fall under one of the authorized uses of ESSER or GEER Funds? (refer to US Dept of Ed FAQ May 2021)
  - Is it necessary and reasonable for the performance of the ESSER or GEER award?



# EDUCATION STABILIZATION FUND

## ALLOWABLE ACTIVITIES - ESSER

### ESSER

- Addressing academic impact of lost instructional time
- Facility repairs/improvements to reduce risk of virus spread and support student health
- Improve indoor air quality – HVAC, fans, control systems, windows, doors, etc..
- Training/Professional development on sanitation and minimizing spread
- PPE, cleaning supplies, etc..
- COVID testing and vaccines
- Providing meals
- Improve Cyber Security

### ESSER

- Activities to address unique needs of HUS's – outreach and service delivery
- Improving preparedness and response efforts
- Providing technology for online learning
- Providing mental health services
- Summer learning, enrichment, after school programs
- Other activities that are necessary to maintain operation and continuity of services



# EDUCATION STABILIZATION FUND

## ALLOWABLE ACTIVITIES – GEER

Minnesota identified two key specific uses for GEER:

1. Expanding technology capacity to meet student learning need, with particular attention to increasing broadband access, establishing wireless hotspots, and purchasing devices, such as laptops or tablets for students.
2. Improving student to teacher ratios for summer school programming to at most six students per teacher





# EDUCATION STABILIZATION FUND

## EQUIPMENT AND REAL PROPERTY MANAGEMENT

- Capital expenditures for equipment require prior approval by MDE
- Real Property/Construction/Improvements – all require prior approval from MDE
- “Capital Expenditure” – \$5K (unit cost) or more
- Construction – ensure compliance w/ Safety and Health Standards and Energy Conservation. (see 34 CFR 75.609 and 75.616)
- Records of federal property – physical inventory required
- Test disposals of federal property w/ FMV >\$5K



# STATEMENT ON AUDITING STANDARDS (SAS)

Changes from Recently Issued Auditing Standards

# AUDITING STANDARDS

- The American Institute of CPAs (AICPA) Auditing Standards Board has recently issued Statements on Auditing Standards (SAS) No. 142
  - The standard does not impose any additional speciate audit procedures; however it does expand on explanations of the types of evidence available, tools, and techniques that may be used to obtain evidence, and how to evaluate evidence.
    - Automated Tools and Techniques
    - Corroborative and Contradictory Information
    - Conscious Bias on the Part of Management
    - External Sources of Information
    - Reliability of Information



# AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS (AICPA)

Changes from Recently Issued Ethics Interpretations

# ETHICS INTERPRETATIONS

The American Institute of CPAs (AICPA) has recently issued an Ethics Interpretations:

## Client Affiliates

- The interpretation requires an auditor to determine whether they are independent of an “affiliate” of the local government financial statement audit client
  - Guidance provided in an implementation guide

## Responding to Noncompliance With Laws and Regulations

- The interpretation is set out to define the responsibilities of the parties to an audit when encountering noncompliance or suspected noncompliance
  - Guidance provided for evaluating the implications of the matter and the possible courses of action when responding to it



# GOVERNMENT ACCOUNTING STANDARDS BOARD (GASB)

Update on Standards Issued by GASB

# **GASB #87 – LEASES**

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

**Effective for the year ended June 30, 2022  
(as amended by GASB #95)**

# LEASES

## Implementation Issues

- Transfer of Ownership
  - If a contract transfers ownership of the underlying asset at the end of the contract and does not contain termination options, this type of contract is not a lease and is considered a financed purchase
- Contracts with Multiple Components
  - Separate contracts into lease and non-lease components, separate IT components
- Completeness
  - Verification that your implantation plan considered all leases
- Consider materiality
  - An audit concept. A business office needs to develop internal controls to capture all leases
- Lease Term
  - Noncancelable periods





# LEASES

## Lessee Disclosures in Financial Reports

- Description of lease
- Total amount of leased asset and related accumulated amortization
- Amount of leased assets by major class including related accumulated amortization disclosed separately from other capital assets
- Amount of outflow of resources recognized
- Current year expense for any payments not included in original liability
- Principal and interest requirements to maturity
- Commitments under leases that have not begun



# LEASES

## Lessor Disclosures in Financial Reports

- Description of lease
- Total amount of deferred inflows of resources
- Amount of inflows of resources recognized
- Existence of terms for lessee to terminate payments
- Any debt used for financing leased asset
- Maturity analysis of all future lease payments in lease receivable



# **GASB #91**

## **Conduit Debt**

**Effective for the year ended June 30, 2023**

**(as amended by GASB Statement #95)**

# CONDUIT DEBT

- A debt instrument issued in the name of a local government, but is for the benefit of a third party that is primarily liable for repayment and has all of the following characteristics
  - Three parties involved – issuer, third party obligor, and debt holder
  - The issuer and third party are separate entities
  - The third party ultimately receives the debt proceeds
  - Third party is primarily obligated to pay debt service
  - Issuer's commitment on debt service payments is limited



# CONDUIT DEBT

## Accounting and Reporting

- Issuer does not recognize liability and expense unless more than likely they will support debt service
- Issuer has the following disclosure requirements:
  - Brief description of debt issuance
  - Description of the commitment
  - The aggregate outstanding principal amount of all conduit debt obligations outstanding at the end of the reporting period





# **GASB #96 – SUBSCRIPTION-BASED INFORMATION TECHNOLOGY ARRANGEMENTS (SBITA)**

**GASB Statement #96 on SBITA improves existing standards on accounting  
and financial reporting for SBITA's**

**Effective for the year ended June 30, 2023**

# SBITA'S

- Definition of a Subscription-Based Information Technology Arrangement (SBITA):
  - 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.
  - Subscription term includes the period the government has a noncancellable right to use the underlying IT asset.
  - Subscription term also includes periods covered by an option to extend (if reasonably certain the government will extend the option).



# SBITA'S

- What is NOT in the scope of GASB #96
  - Contracts that meet the definition of a lease in which the software component is insignificant
  - Governments that provide the right to use IT software to other entities through SBITA's
  - IT arrangements that provide a perpetual license to governments to use software (considered a purchase)





# SBITA'S

- Common SBITA'S For Schools

- ▶ Accounting Software,
- ▶ Remote Learning Platforms,
- ▶ Student Information Systems,
- ▶ Records Management Systems, Library Management Systems,
- ▶ Teacher Evaluation Systems, Content Management Systems,
- ▶ Professional Development Tracking, Emergency Notification Systems,
- ▶ Server Hosting Services, Cloud Storage, and
- ▶ E-mail Services, Data Backup, Electronic books.



# SBITA'S

- Accounting Application
  - Recognize a right-to-use subscription asset – an intangible asset
  - Recognize a subscription liability
  - Recognize liability at the commencement of the subscription term, which is when the subscription asset was placed in service.
  - Recognize the subscription liability at the present value of subscription payments made during the term of the agreement
  - Subscription payments should be discounted using the interest rate the SBITA vendor charges the government or the government's incremental borrowing rate



# SBITA'S

- Accounting Application
  - SBITA Asset
    - ▶ Sum of:
      - Initial measurement of subscription liability
      - Payments made to vendor at or prior to commencement
      - Any initial implementation costs capitalized



# SBITA'S

- Statement provides an exception for short-term SBITA's
  - Maximum possible term of 12-months, including options to renew regardless of their probability of being exercised
- Financial Reporting
  - Disclose descriptive information about the SBITA's
  - Amount of subscription asset and accumulated amortization
  - Principal and interest requirements for the subscription liability
  - Other essential information
  - Accounting standard based on GASB #87 for leases



# SBITA'S

- Disclosures
  - Description of SBITA's
  - Total amount of SBITA asset and related accumulated amortization
  - Amount of outflows of resources recognized for payments not previously included in the measurements of the subscription liability
  - Principal and interest requirements to maturity
  - Commitments under SBITA's before the commencement of the SBITA



# SBITA'S

- Implementation Issues
  - Considered a financing arrangement (debt) of right-to-use assets
  - Assets and liabilities recognized and measured using facts and circumstances that existed at the beginning of the fiscal year
  - Governments are permitted, but not required, to include the capitalizable outlays associated with the preliminary project and initial implementation stage incurred prior to the implementation date of the software.
  - Report an entire multiple-component contract as a single SBITA.
  - Training costs are expensed as incurred regardless of the stage in which incurred



# SBITA'S

- Implementation Planning
  - Create an inventory of potential contracts to evaluate
  - Determine which contracts meet the definition of an SBITA
  - Review contracts for multiple components, multiple asset components, and service components
  - Determine materiality thresholds for capitalization
  - Develop new policies and procedures for implementation period and going forward



# **GASB STATEMENT #101**

**Compensated Absences**

**Effective for the year ended June 30, 2024**



# COMPENSATED ABSENCES

## Key Elements

- Specifies the attributes of compensated absences that require accrual as a liability
- Specifies certain types of compensated absences that should not be accrued as a liability
- Establishes guidance for measuring the leave liability – generally using an employee’s pay rate as of the date of the financial statements
- Amends existing disclosure requirements to allow governments to disclose only the net change in the liability (as opposed to the current disclosure of increases and decreases)



# OTHER NOTEWORTHY ITEMS

Effective for the year ended June 30, 2023

# FINANCIAL REPORTING

- GASB Implementation Guide 2021-1
  - Question 5.1 – A government should capitalize assets whose individual acquisition costs are less than the threshold for an individual asset if those assets in the aggregate are significant. Examples include computers and classroom furniture
- Certificate Programs
  - Application will include need to include calculation of net investment in capital assets. Consider including in notes to basic financial statements.



## CONTACT INFORMATION

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