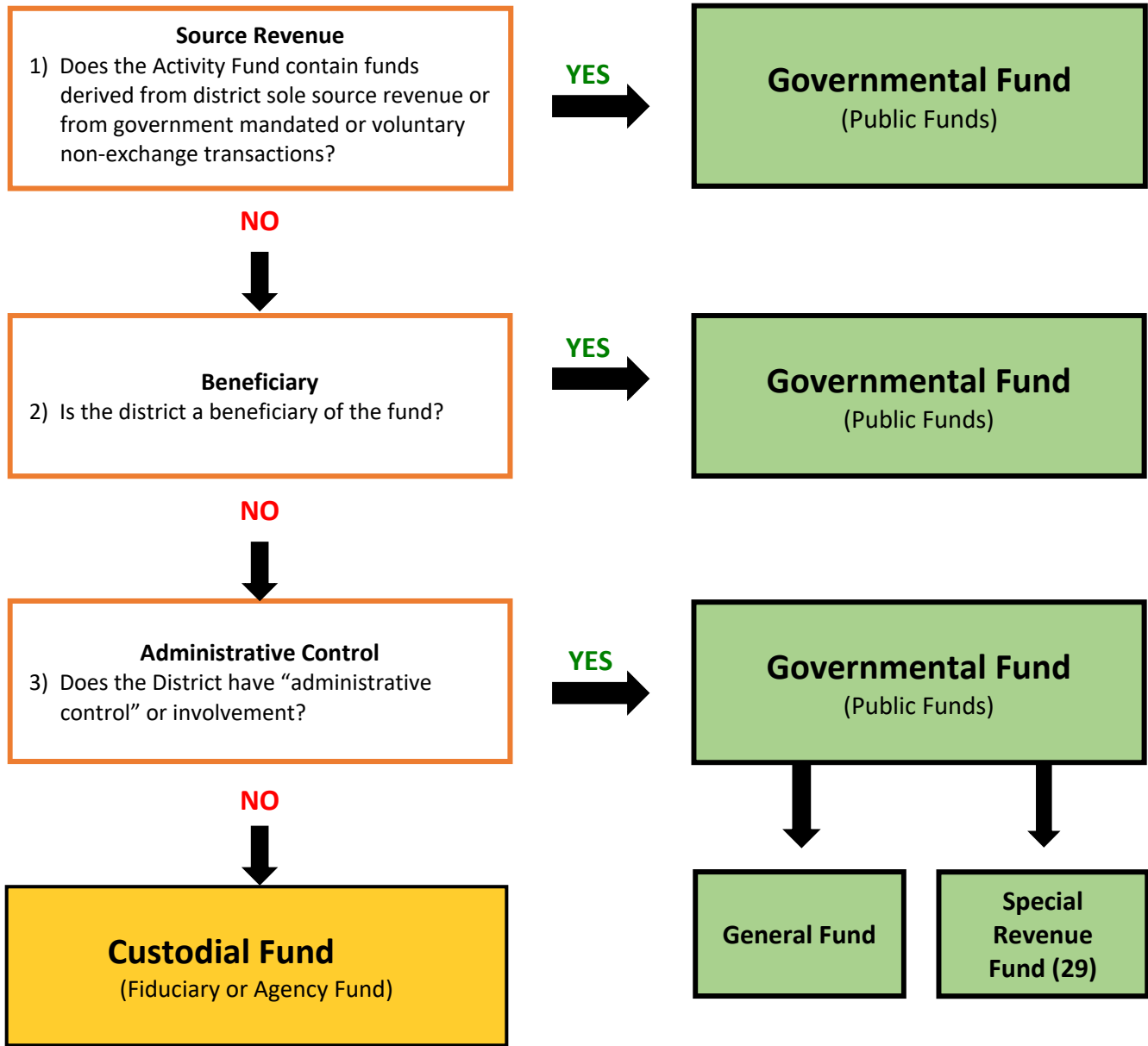


Attachment A

GASB 84 Implementation Guidance for Activity Funds

Activity Funds

*GASB statements only apply to local units of governments. Bulletin 1022 only governs accounts held by Michigan public school districts and other educational institutions. This analysis does not apply to personal or private bank accounts (e.g., individual parents, separate entities).



Note: As a general rule, public funds are subject to the Revised School Code and all other rules and regulations applicable to public funds.

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ATTACHMENT B

Legal References – Constitutional and Statutory Limitations

Constitutional Authorization and Limitations

Article VIII, Section 2	"Free Public Education" - limits the expenditure of public funds on private or denominational education.
Article IX, Section 18	"Lending of Credit" section - requires that a governmental entity receive value or consideration for its property; relied on by Treasury for no donations to charitable entities
Article IX, Section 21	The legislature shall provide law for the annual accounting of all public funds; there shall be a uniform accounting system used by all units of local government.
Article XI, Section 3	School district may not pay extra compensation for services rendered or a contract entered into.

Specific Statutory Prohibitions

Revised School Code (RSC)

MCL 380.11a(3)	General Powers - the expenditure of public funds must have an educational purpose or purpose related to the operation of a school district.
MCL 380.622a	Additional Audits - an ISD may not use public funds for the purchase of food or gifts that do not have an <i>instructional</i> purpose, as opposed to an educational purpose, as defined by the ISD Board.
MCL 380.634	Conflicts of Interest –Prohibits the purchase of gifts, alcohol, jewelry, golf fees and sets monetary limits for recognition awards (trophies, plaques) by an ISD.
MCL 380.1211	Operating Millage
MCL 380.1212	Sinking Fund
MCL 380.1216	Tax Levies
MCL 380.1217	Sectarian Schools - Prohibits the use of public funds to support a sectarian school.
MCL 380.1217a	Cars and Chauffeurs – Prohibits the use of public funds to transport board members within district boundaries using rental cars and chauffeurs.
MCL 380.1223	Investment of Funds
MCL 380.1224	Tax Sheltered Annuity
MCL 380.1250	Merit Pay
MCL 380.1254	Actual and Necessary Expenses - District may only pay actual and necessary expenses incurred by its board members and employees in the discharge of official duties. Board expenses must be approved in advance.
MCL 380.1274	Supplies, Material, and Equipment
MCL 380.1274a	Energy Conservation Improvements
MCL 380.1274b	Mercury - Prohibits the purchase of free form mercury and related expenses.
MCL 380.1321	Transportation
MCL 380.1351a	Bond Proceeds
MCL 380.1525	Professional Development
MCL 380.1814	Gifts and Recognition Awards - Prohibits the purchase of gifts, alcohol, jewelry, golf fees and illegal substances; sets monetary limits for recognition awards (by all public school districts (including public school academies and ISDs).

State School Aid Act (SSAA)

MCL 388.1607	School Operating Purposes
MCL 388.1618	Use of State School Aid
MCL 388.1764	Cars or Chauffeurs - provides same limitations as MCL 380.1217a but includes forfeiture of funds
MCL 388.1764b	Board Member Expenses - provides same prohibitions as MCL 380.1254
MCL 388.1764c	Foreign Goods - prohibits use of state aid to purchase foreign goods if American goods of comparable price and quality are available. Also requires preference to be given to Michigan businesses.
MCL 388.1764d	Discrimination Against State University
MCL 423.215b	Retroactive Compensation

Additional State Guidance/Manuals:

[Audit Manual for Local Units of Government in Michigan \(2012\)](#)

[Michigan Public School Accounting Manual \(Bulletin 1022\)](#) as amended March 28, 2019

[Michigan School Auditing Manual 2018-2019](#)

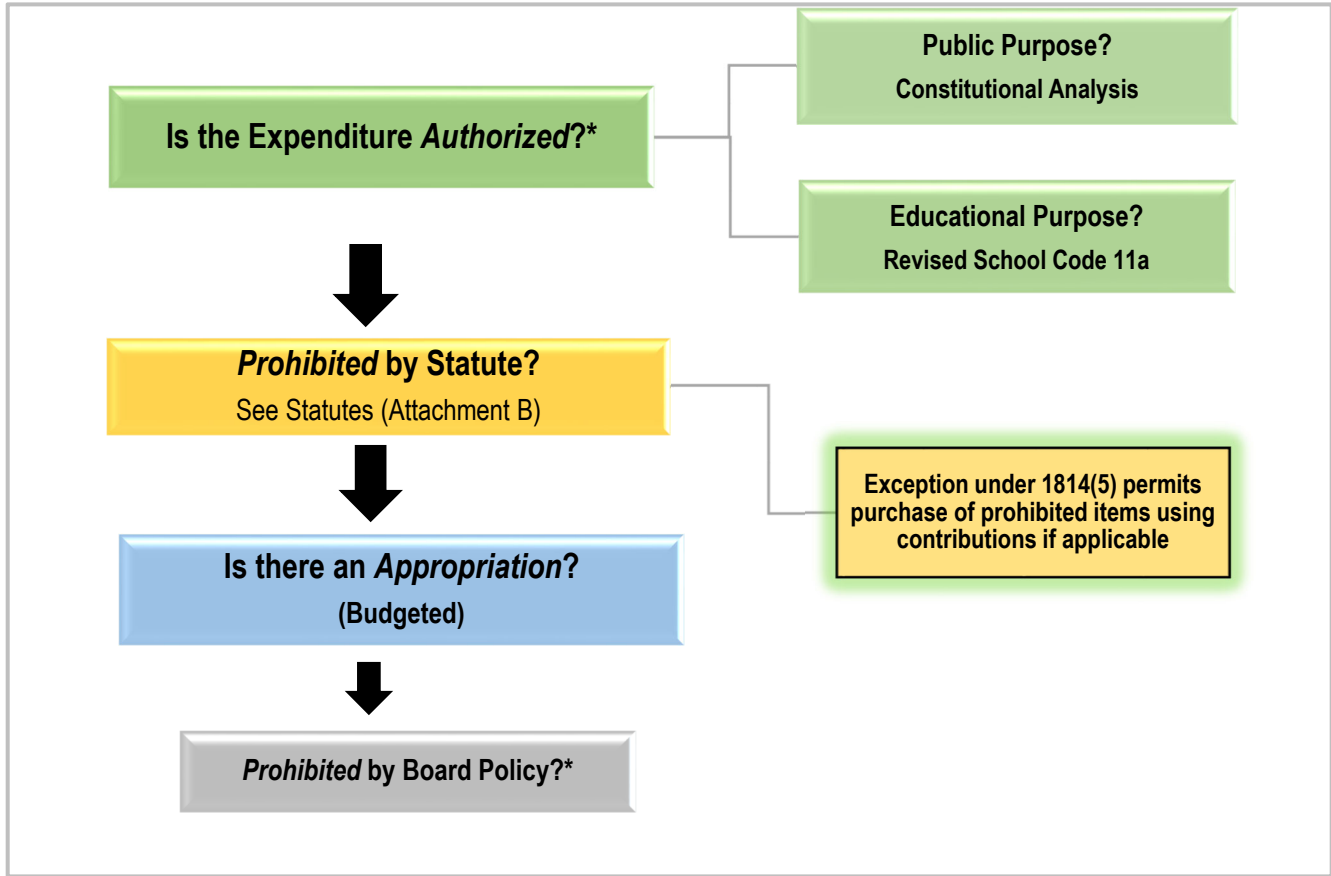
**Sections in bold font specifically identify prohibited expenditures using public funds.*

This is not an exhaustive list of applicable legal authority.

Attachment C

This document provides a general overview of GASB 84 and steps that Michigan public school districts should take to comply. The information in this document is not intended as legal advice or to address any specific situation. Always consult board policy and relevant advisors before making decisions to comply with GASB 84. This document is presented in conjunction with Thrun Law Firm's *Legal Implications of GASB 84 and Lawful Expenditures by Michigan Public School Districts* dated August 28, 2019.

Lawful Expenditures Flowchart Operating Expenses



Operating Expenditure Analysis and the Exception under Section 1814(5)¹

The above analysis reflects the standard review process for determining lawful expenditures of public funds related to operating expenditures (“authorized, not prohibited, budgeted”).² This analysis equally applies to all assets from Activity Funds transferred to a Governmental Fund.

Section 1814 prohibits expenditures using public funds for the following: **alcoholic beverages, jewelry, gifts, fees for golf, or illegal items** and places monetary limitations on expenditures related to **awards for recognition** (e.g., plaques, trophies) under Section 1814(2). The exception under Section 1814(5) provides that these items may be purchased using “**voluntary contributions made for a specific purpose**” which are not considered public funds.

**Prohibited by Board Policy* – while this is another inquiry or step in the process, unlike the “authorized, not prohibited, budgeted” analysis, this is within the district’s control and may be modified within the parameters of applicable law.

¹ Section 1814 and Section 634 apply the same restrictions to intermediate school districts.

² While substantially similar, the analysis for expenditures from non-operating funds (e.g., capital projects, building and site sinking funds) will vary depending on the fund. We recommend contacting a finance attorney for questions related to lawful expenditures from such funds.

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Attachment D

[Michigan Public School Accounting Manual \(Bulletin 1022\)](#) as amended March 28, 2019

[Audit Manual for Local Units of Government in Michigan \(2012\)](#) (Appendix H)

Related Guidance:

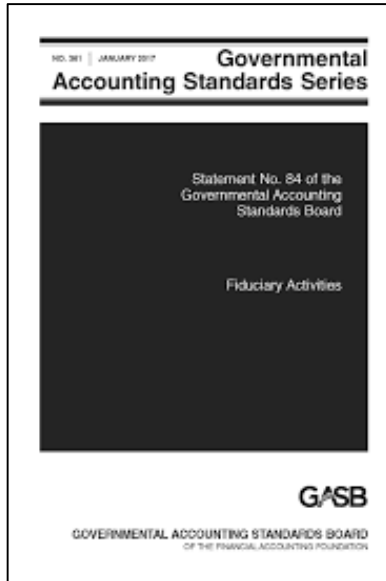
[Michigan School Auditing Manual 2018-2019](#)

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Attachment E

GASB Statement No. 84

[GASB Statement No. 84, *Fiduciary Activities*, January 2017](#)



Related Guidance:

See [GASB Statement No. 84 Guidance](#) for the following GASB publications related to GASB 84:

GASB 84 Exposure Draft - Proposed Implementation Guide, *Fiduciary Activities*, December 2018

Implementation Guide No. 2019-2, *Fiduciary Activities*, June 2019

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Attachment F

Lawful Expenditures under GASB 84 – Summary and Reference Table

To summarize the impact of GASB 84 on lawful expenditures, the attached table provides a summary of common expenditures using former student activity funds transferred to new Student/School Activity Fund (29), and now classified as public funds. The following concluding points, identify several key concepts from the Guidance as well as options for addressing GASB 84:

1. **Lawful Expenditures:** Most expenditures will remain lawful after compliance with the accounting changes under GASB 84 as required under Bulletin 1022, provided that such expenditures meet the requirements in **Attachment C** (i.e., authorized, not prohibited, budgeted).
2. **Using Donations or Contributions to Support Student Activities:** An effective method for supporting student activities and programs is the use of donations or contributions and contributions to the district for this purpose. This is *not* the same as the exception provided under Section 1814, as explained below. Donating funds to the district which are “earmarked” for a specific program or purpose may be honored by the district. To accomplish this, a donation form which requires the donor to identify and describe the purpose is critical. It should be noted that, unlike a contribution that falls under the exception of Section 1814(5), donated funds will be treated as public funds. In addition, the expenditure must be for an educational purpose regardless of whether the underlying source is a donation.
3. **Expenditures for Personal or Private Purposes** – The use of district funds for expenditures that are personal in nature, which includes many purposes related to flower funds, is not permissible. Staff and parents may raise such funds, however if the funds are donated to the district and placed into a governmental account, such funds become public funds and any expenditure must have an education purpose.
4. **Section 1814 Expenditures** – Under the general analysis for determining lawful expenditures, expenditures may be prohibited by statute, which applies to expenditures identified under Section 1814. The purpose of further analyzing expenditures under Section 1814 relates to the unique exception under Section 1814(5). Notably, this exception is not found in other sections of the RSC which prohibit certain expenditures. The use of a donation form to identify the “specific purpose” will prove to be extremely useful in the event an expenditure is questioned under audit. The determination of the “specific purpose” of donating funds will prove to be more difficult for funds transferred pursuant to GASB 84 where it may be difficult to determine the specific purpose, in particular if funds have been carried forward from prior years. Finally, this approach may not be expanded to other sections of the RSC which prohibit specific expenditures.
5. **Unlawful Expenditures** – While unlawful expenditures would encompass those that do not meet the three part analysis summarized above, the attached table specifically identifies certain expenditures previously made from a student activity fund that are now not permissible. Generally, all district expenditures must be for an educational purpose or a purpose related to the operation of a school district.

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Please review the follow table for additional information related to types or categories of funds previously held in student activity funds. This is not an exhaustive list of applicable legal authority.

Former Activity Fund Expenditures		
Expenditure	Payable from Student/Building Fund (29)	
Student and Building Activity Expenses (General Rule)	Summary	Rules applicable to the expenditure of public funds will apply to all funds formerly held in a student activity funds when transferred into a Governmental Fund. As a general rule, the expenditure of public funds requires a public purpose. In addition, under the RSC the expenditure is required to have an educational purpose or purpose related to the operation of a district.
Use of Contributions and Donations for Student Activities and Programs	Summary	As a means to address the elimination of student activity funds and continue to provide support, parent groups and other individuals may donate or contribute funds to a specific student activity or event. The purpose of the donation or contribution must be identified to the district, thus to effectively use this approach, a "donation form" which allows a donor to identify the purpose of the donation must be completed.
Contributions or Donations for Purchases under Section 1814 (e.g., Gifts, Recognition Awards)	Summary:	<p>Section 1814 does not provide an exception to the <i>expenditure of public funds</i>. Rather, it provides that certain voluntary donations for a specific purpose will not be defined as "public funds" under this section.</p> <p>Thus, if the district is contemplating a purchase of one of the items under Section 1814 of the RSC the exception under Section 1815(5) must apply. A donation form which confirms the contribution is voluntary and identifies the specific purpose for all future contributions is strongly recommended.</p> <p>If using funds transferred as required by GASB 84, caution should be used to verify that the "specific purpose" is clear. The use of this exception also will not apply to any fees required by the district since a required fee is not voluntary.</p> <p>Prior to the expenditure board policy should be reviewed to verify that the expenditure is not otherwise prohibited by board policy, in particular purchases of alcohol or illegal substances.</p> <p>Finally, regardless of whether the exception under Section 1814(5) is met, the expenditure must be for an educational purpose as required under Section 11a of the RSC.</p>
Other Purchases under Section 1814 (e.g., alcoholic beverages, jewelry, golf fees, and illegal substances)	Summary:	<p>School officials should verify that such items are not prohibited purchases by board policy, regardless of whether the exception under Section 1814(5) applies. In particular, board policy may prohibit the purchase of alcohol or illegal substances regardless of whether voluntary contributions under Section 1814(5) are used for public policy and liability purposes.</p> <p>Other district funds considered sole source funds (e.g., state aid, tax revenue) may not be used to purchase such items without exception.</p>
"Flower Funds"	Summary	Also known as "Sunshine Funds," Flower Funds are commonly used to purchase breakroom snacks for staff, staff picnics, flowers for funerals or showers, gift cards for volunteers, and other purposes. The use of public funds for these purchases is <i>not</i> permissible.

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Donations or contributions may be made as described under "General Rules" above, using a proper "Donation Form" that identifies the donation to be used for such purposes. Note however, unlike the exception under Section 1814(5) donated funds in general are public funds. Funds must be used for an educational purpose or the purpose of the operation of a school building.

Thus, the proposed "solution" for using donated and earmarked funds will not permit the purchase of many items formerly purchased using Flower Funds. The expenditure must still have an educational purpose (and a majority of the expenditures identified above do not have an educational purpose).

District staff and others may still collect funds for these purposes, however they should not be placed in a governmental account.

Expenditures for Meals and Beverages

Summary:

The general rule that all expenditures made by a public school must be for an educational purpose or for the purpose of operating a public school. Expenditures must be reviewed on a case-by-case basis.

To provide meals to students or staff, parent groups may raise funds for this purpose and donate funds to the district using a form which "earmarks" the donation for this purpose would be acceptable provided that such funds are for an educational purpose. Thus, raising funds and donating those funds for such purpose would allow districts to purchase meals *donations*.

This is not the same as the Section 1814(5) exception in that this provision addresses the purchase of items prohibited by statute. More importantly, under the exception provided by 1814(5) the funds are not considered public funds. If donations are used and contributed to the district using a form that earmarks the purpose as being for meals/beverages during a district-sponsored event, they are still public funds and must be used for a public purpose.

Providing meals to staff during normal work hours is not permissible. If meals are provided during normal work hours where staff is unable to leave, such as a training event that may be permissible.

Expenditures for a personal matter or social event not related to an educational purpose are not permissible (e.g., purchasing food collected for a teacher's baby shower). To avoid the restrictions that would apply, if a district is collecting funds for this purpose, they should not be deposited into a district account.

Alcoholic beverages, jewelry, golf fees, and illegal substances

Summary:

School officials should verify that such items are not prohibited by board policy, regardless of whether the RSC Section 1814(5) exception applies. In particular, board policy may prohibit the purchase of alcohol or illegal substances for public policy and liability purposes.

Other district funds considered sole source funds (e.g., state aid, tax revenue) may not be used to purchase such items without exception.

Charitable Donations - General Rules

Summary:

A district may not donate to a charitable organization (e.g., a 501(c)(3) charity) regardless of the charitable cause based on the Michigan Constitution.

Donations to an Educational Foundation	Summary:	<p>The general prohibition of charitable donations stated above applies equally to a district's educational foundation.</p> <p>As a proposed solution, funds raised for an educational foundation should be donated directly to the foundation to avoid this restriction.</p>
Donations to a Community Foundation	Summary	<p>A limited exception is provided for donations to a community foundation under the Michigan Community Foundation Act (MCL 123.901, <i>et seq.</i>). This exception only permits a district to donate funds received by way of a gift or donation (i.e., not state aid or other sole source revenue).</p>
Membership Dues	Summary:	<p>Public funds may be used for membership fees having an educational (work related) purpose, such as MASA, MSBO, etc.</p> <p>Membership dues unrelated to public or educational purpose are not permissible.</p>
Fees to Attend Social Events (for Staff)	Summary:	<p>Typically <i>not</i> permissible due to a lack of an educational purpose. Such expenditures may be permissible if the event is to obtain information related to an educational purpose. For example, a dinner or other event in which a speaker will present on the status of funding for public education. These expenditures must be analyzed on a case by case basis as necessary.</p>
Travel Expenses	Summary:	<p>Potentially permissible expense if the travel is work-related. Restrictions apply to the use of state and federal funds and require prior authorization under RSC Section 1525.</p> <p>Restrictions under Section 1525 relate to staff and board member travel for professional development, not student travel.</p> <p>Finally, funds are frequently raised for student travel and if contributed to the district for this purpose, the donation should be properly identified on a donation form.</p>

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