
Novi Community School District

Report to the Board of Education

June 30, 2020

To the Board of Education
Novi Community School District

We have recently completed our audit of the basic financial statements of Novi Community School District (the "School District") as of and for the year ended June 30, 2020. In addition to our audit report, we are providing the following results of the audit, other recommendations, and informational items that impact the School District:

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We are grateful for the opportunity to be of service to Novi Community School District. We would also like to extend our thanks to Mr. Gregory McIntyre, Ms. Deanna Wheeler, and the entire business office for their assistance and preparedness during the audit. We recognize that preparing for the audit is carried out in addition to your staff's normal daily activities. Should you have any questions regarding the comments in this report, please do not hesitate to call.

Plante & Moran, PLLC

October 19, 2020

Results of the Audit

October 19, 2020

To the Board of Education
Novi Community School District

We have audited the financial statements of Novi Community School District (the "School District") as of and for the year ended June 30, 2020 and have issued our report thereon dated October 19, 2020. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated June 16, 2020, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities. Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement.

As part of our audit, we considered the internal control of the School District. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

Our audit of the School District's financial statements has also been conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. Under *Government Auditing Standards*, we are obligated to communicate certain matters that come to our attention related to our audit to those responsible for the governance of the School District, including compliance with certain provisions of laws, regulations, contracts, and grant agreements; certain instances of error or fraud; illegal acts applicable to government agencies; and significant deficiencies in internal control that we identify during our audit. Toward this end, we issued a separate letter dated October 19, 2020 regarding our consideration of the School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on August 6, 2020.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the School District are described in Note 2 to the financial statements.

As described in Note 2, the School District adopted the provisions of Governmental Accounting Standards Board Statement No. 84, *Fiduciary Activities*. Accordingly, the accounting change has been retrospectively applied to July 1, 2019, as required by the standard.

We noted no transactions entered into by the School District during the year for which there is a lack of authoritative guidance or consensus.

We noted no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were the School District's share of the MPSERS net liabilities for the pension and other post-employment benefit (OPEB) plans recorded on the government-wide statements related to GASB Statement Nos. 68 and 75, respectively. The School District's estimates as of June 30, 2020 were \$153,395,001 and \$33,358,047 for the pension and OPEB plans, respectively, based on data received from the Office of Retirement Services. We evaluated the key factors and assumptions used to develop the accounting estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Disagreements with Management

For the purpose of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report.

We are pleased to report that no such disagreements arose during the course of our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management.

We did not detect any misstatements as a result of audit procedures.

Significant Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the School District, and business plans and strategies that may affect the risks of material misstatement, with management each year prior to our retention as the School District's auditors. However, these discussions occurred in the normal course of our professional relationship, and our responses were not a condition of our retention.

As required by 2 CFR Part 200, we have also completed an audit of the federal programs administered by the School District. The results of that audit are provided to the those charged with governance in our report on compliance with requirements applicable to each major program and on internal control over compliance in accordance with 2 CFR Part 200 dated October 19, 2020.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 19, 2020.

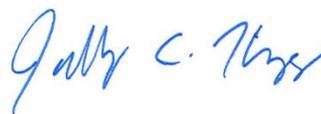
Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a second opinion on certain situations. If a consultation involves application of an accounting principle to the School District's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

This information is intended solely for the use of the Board of Education and management of Novi Community School District and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Plante & Moran, PLLC



Jeffrey C. Higgins, CPA
Partner



Chris Geck, CPA
Principal

Other Recommendations

We commend the business office, especially Deanna Wheeler and Greg McIntyre, for the assistance, responsiveness, and receptiveness displayed during the audit process. Their level of professionalism and that of the entire team ensured that the audit was completed in a timely fashion.

As the result of our audit procedures for the year ended June 30, 2020, we offer the following comment and recommendation for your review and consideration:

- **Comment - Construction Transactions** - As previously discussed with the finance committee, the School District engaged another CPA firm to review the transactions associated with the Sinking Fund and the 2017 and 2020 Capital Projects funds for the year ended June 30, 2020. The firm's agreed-upon procedures letter indicated all transactions were in compliance with Section 1212(1) (Sinking Fund) or Section 1351(a) (2017 and 2020 Capital Projects funds) of the Revised School Code and the Revised Bulletin for School District Audits of Bonded Construction Funds and Sinking Funds in Michigan.
- **Recommendation - Segregation of Duties** - We offer the following recommendation to the School District as it relates to areas in which segregation of duties could be strengthened but will need to be balanced with the School District's resources and capacity:
 - Certain key school district employees are superusers for the finance system. They have access to nearly all levels of the financial system, which allows them to initiate transactions, add vendors, perform certain payroll tasks, process transactions, and execute payments in the form of checks. The School District has certain detective controls in place to mitigate the lack of segregation of duties caused by having this access. Additionally, we recommend the following:
 - That at least annually the levels of system access for all personnel be reviewed for (1) continued need and (2) changing responsibilities.
 - System-generated vendor change edit reports should be reviewed by at least two individuals, and documentation of the review should be maintained. Additionally, the School District should investigate whether the software will allow for a report that will also highlight newly created vendors in the accounting system. When reviewed, these reports should be downloaded directly by the reviewer from BusinessPlus rather than to obtaining them from other users.
 - While we did not identify any accounts that were not reconciled, we recommend that the School District maintain documentation to verify who reviewed the reconciliations and when (date/time stamp).

Informational Items

State Aid Funding

2019-2020 State Aid, Foundation Allowance, and Proration

Background

Beginning of the 2020 School Year: School funding for 2019-2020 started out with little clarity; as the year progressed, the funding picture only increased in complexity and uncertainty. Due to conflicting priorities between the governor and the Legislature, school aid funding was not set on July 1, 2019, the start of Novi Community School District's fiscal year. This meant the School District was required to enact a budget with little to no guidance as to what the school aid funding picture would look like. It also meant the School District would need to revisit budget assumptions once the final state aid package was enacted. Once the funding was settled, the focus moved to what 2020-2021 would look like. The January 2020 Revenue Estimating Conference painted a positive picture for the School Aid Fund and the General Fund looking forward, and the governor started the budget process with the administration's budget recommendations.

State Budget Crisis: The normal budget development process was halted in March 2020 as the State began dealing with the implications of COVID-19. Schools moved to remote learning, meals were served for whole communities, federal financial resources were quickly infused into the economy, and "stay home, stay safe" was the theme as the entire state worked to see a way through the challenges of COVID-19. In May 2020, the regularly scheduled Revenue Estimating Conference addressed two key questions: What was the status of state revenue for the 2020 fiscal year, and what projections can be made looking forward to 2021 and 2022? The conclusions reached at the meeting were dire. It was estimated the 2020 School Aid Fund would end the year with an approximately \$1 billion deficit, roughly translated to a \$685 per pupil shortfall, that would need to be absorbed with the 2020 school year almost over. In addition, the estimates suggested there would be no improvement until 2022. These conclusions caused many districts to adjust their final 2020 budgets to reflect a potential proration of as much as \$650 to \$700 per pupil.

Financial Picture Improves: In the months that followed the May Revenue Estimating Conference, and well after the 2020 school year had ended, the State concluded it could balance its school aid budget with a \$175 per pupil proration cut, significantly less than the expected \$650 to \$700 per pupil estimate. In addition, in August 2020, a special Revenue Estimating Conference was held with the same goals as the May conference. With better data, the conference concluded that it was possible the \$175 per pupil proration would not need to recur in 2021, and the School Aid Fund will end in a better position than anticipated.

2020 Funding Implications for Novi Community School District

2019-2020 Foundation: The target foundation allowance (formerly known as the basic foundation allowance) increased by \$120, from \$8,409 to \$8,529. Additionally, using the "2X formula," the minimum foundation allowance increased by \$240 per pupil to \$8,111. Before applying proration, Novi Community School District received a \$120 increase in its foundation allowance, representing an increase of 1.4 percent as compared to the prior year. When a proration is applied, it does not change the actual foundation allowance. Instead, it is essentially "taken off the top" of the funds provided to each district. The \$175 per pupil proration resulted in a reduction of funding of approximately \$1,174,000 from what was planned for Novi Community School District. For practical purposes, after applying proration, which occurred subsequent to June 30, 2020, the net result was effectively a decrease of \$55 per pupil in the foundation allowance for the School District.

MPSERS Cost Support: Overall retirement costs continue to increase. The estimated contribution rate for 2019-2020 ranged from 36.44 to 39.91 percent of covered payroll, with the rate, net of state funding support, paid directly by the employer ranging from 24.03 to 27.50 percent of covered payroll. The State's funding support is provided in three separate sections of the State Aid Act: Sections 147a, 147c, and 147e. The School District received a total of \$558,315 in 147a1, \$860,661 in 147a2, \$5,156,378 in 147c1, and \$126,466 of 147e. In general terms, this means the total cost of the retirement system contributions in 2019-2020, representing approximately 39 percent of covered payroll, is recognized as an expenditure in the School District's financial statements along with related revenue that was previously considered state support to the system. The net effect is that the School District is responsible for approximately a 27 percent contribution to the retirement system.

COVID-19 Waivers and Flexibilities: With the onset of COVID-19, many waivers were put in place and flexibilities made available to allow for the continued operation of schools. Examples include waivers for in-person attendance and days and hours requirements, since learning was now using a remote model, and approval and use of a Continuity of Learning Plan to qualify for continued state funding.

2021 Funding Implications for the School District

The August 2020 Revenue Estimating Conference reflected a better than expected revenue picture through September 30, 2020 and more stable financial footing for fiscal year 2021. Communications surrounding financial projections are highly cautionary, as the uncertainty of the economic impact of the pandemic duration continues to loom large. Careful monitoring of legislative, gubernatorial, and Michigan Department of Education actions will be essential for the School District to understand and plan for all revenue, identify requirements to receive and utilize federal revenue, and craft methodologies to allocate costs to ensure reimbursement. Several elements that impact school financial management are summarized below:

- **2020-2021 Foundation:** The School District's foundation allowance remains at the fiscal 2019-2020 level, with the minimum set at \$8,111 per pupil and the target set at \$8,529 per pupil. For Novi Community School District, this results in a foundation allowance of \$8,839 per pupil. The \$175 per pupil proration received in fiscal year 2020 will not continue into fiscal year 2021. School districts will also receive a one-time payment estimated at \$65 per pupil for fiscal year 2021 based on a 50/50 blend (50 percent weight on fiscal year 2020 membership plus 50 percent weight on what would have been the traditional fiscal year 2021 membership). Special education funding remains consistent at fiscal year 2020 levels, with the additional 2 percent reimbursement rate continuing in fiscal year 2021.

- **Pupil Membership Blend for 2020-2021:** Typically, the pupil count methodology is defined when the School Aid Act is amended. For the 2021 fiscal year, a modified weighting process was crafted in July 2020 under the “Return to Learn” plan agreed to by the Legislature and the governor. The methodology attempts to address the variety of education delivery methods under the extended COVID-19 learning plans used by districts as fall instruction begins. The process provides for seat time waivers, waives the days and hours of instruction minimums, and changes the weighting of the pupil counts. The new method is a 75 percent/25 percent “super blending.” Step one under this method requires a district to complete its calendar year spring and fall counts for 2019 and 2020. The weighting of those counts continues to be at 90 percent fall and 10 percent spring. Then each of those counts is blended, with the 2019 calendar year count blend weighted at 75 percent and the 2020 count blend weighted at 25 percent. The net result of this is that districts experiencing a student count decline will see slower revenue reductions. Districts with a growing student count would see a slower revenue rise.
- **Increasing Enrollment Districts:** The budget includes an additional \$66 million of funding that will be used to help mitigate impacts to growing districts negatively impacted by the “super blend” calculation. Payments to the impacted districts will be calculated using the difference between the new calculation and a non-pandemic-year blended count multiplied by current foundation allowance and capped at the target foundation level. Depending on the number of districts impacted by the “super blend,” the total funding allocation may be required to be prorated.
- **Teacher Retention Stipend:** The budget also appropriated \$5 million for fiscal year 2021 to provide matching funds to districts to retain new teachers. The program would provide \$1,000 in state funds to match \$500 in district funds for new teachers completing a full year of teaching in districts with at least 70 percent of pupils being economically disadvantaged. For districts with a lower percentage of economically disadvantaged pupils, the state payment would decline to \$500. This stipend should not be confused with the \$500 hazard pay for teachers, which is expected to be funded by the Coronavirus Relief Fund and has yet to be finalized.
- **MPSERS Cost for 2020-2021:** The basic structure, including cost support provided by the School Aid Fund, will continue. For 2021, the overall contribution rate is expected to increase to 42 percent from 39 percent, with the net cost to the School District approximating 28 percent of covered payroll. While the net cost to the School District changes marginally, the overall contribution rate increases significantly from 2020. The School Aid Fund implication is that more resources are redirected from the funding of operations to the support of the retirement system funding requirement.

Looking Forward to 2022 and Beyond

Given the uncertain funding environment, looking past 2021 is difficult. The August 2020 Revenue Estimating Conference provided a look into 2022. While 2021 projected a surplus to carry over to 2022, the estimates suggest 2022 would be essentially breakeven, and the projections do not build in any specific foundation allowance increases. Factors that will impact projections include the following:

- The extent of economic “bounce back or backwards” that will be experienced by the State
- The impact of any future federal stimulus provided, as the projections do not include any stimulus other than what is already in place
- The ability to return to in-class instruction

- Student enrollment
- Health of the State's General Fund
- Cost trends for the retirement system and extent state support is used from the School Aid Fund

The next Revenue Estimating Conference will occur in January 2021. Districts will need to carefully monitor those results and compare projections to the August 2020 conference results. That information will allow districts to better project the extent of recovery and implications for school funding.

New Federal Funding Considerations - 2020 and 2021

Districts are experiencing a significant flow of new federal grant funding, the likes of which have not been seen since the Great Recession. These federal grants have compliance strings attached and require additional time and attention by school districts to evaluate and ensure proper use.

The Families First Coronavirus Response Act and the Coronavirus Aid, Relief, and Economic Security Act appropriated billions of dollars in supplemental and new education grant programs. In addition, these acts, and numerous waivers issued by federal agencies, have provided flexibilities for states, intermediate school districts, and local education authorities responsible for administering and monitoring new and previously existing federal grant programs.

Specific guidance related to the funding awarded to the School District under these acts has been released sporadically, oftentimes after the award was announced or funding disbursed; in some cases, guidance is still developing. The following is a summary of the more significant federal grants that have already been awarded to Novi Community School District or those to which the School District may consider applying:

- *Child Nutrition Meal Reimbursement: Unanticipated School Closures Program* - Due to the national emergency and mandatory closure of all Michigan K-12 schools, the School District participated in the Unanticipated School Closure Summer Food Service Program (SFSP) during March, April, May, and June 2020. Nationwide and state-specific waivers granted by the U.S. Department of Agriculture (USDA) allowed all sponsors that participate in the National School Lunch Program (NSLP), School Breakfast Program (SBP), and SFSP to serve noncongregate meals to any child or teen age 18 years or younger residing in the community. The meals served through this program were provided free of charge, and reimbursement to the School District was funded through the CARES Act. Meal reimbursement claims by the Novi Community School District under the Unanticipated School Closures grant during the year ended June 30, 2020 totaled \$397,342.

On August 31, 2020, the USDA announced that it is extending a suite of nationwide waivers for the Summer Food Service Program and Seamless Summer Option (SSO) through the end of 2020 or until available funding is depleted. The extended waivers allow for congregate or noncongregate meals to be served in all areas at no cost and for parents or guardians to pick up meals for their children.

- *Coronavirus Relief Fund* - The CARES Act established the Coronavirus Relief Fund (CRF) and appropriated these funds to states and large governmental municipalities. The funds are designed to help districts cover the supplemental costs related to their response to COVID-19. In July and August 2020, the State of Michigan appropriated \$530 million of the State's federal CRF funds to local education agencies (LEAs), which has since been distributed via the state aid payment system. In addition, \$125 million of Michigan CRF funds is earmarked to provide support to eligible child care providers, including those operated by school districts.

Districts are required to use the funds in accordance with federal rules and regulations, subject to further interpretation by the State of Michigan. The CARES Act outlines three broad requirements that pertain to payments from the Coronavirus Relief Fund; the funds may be used only to cover expenses that:

1. Are necessary expenditures incurred due to the public health emergency with respect to coronavirus disease 2019 (COVID-19)
2. Were not accounted for in the budget most recently approved as of March 27, 2020 (the date of enactment of the CARES Act) for the state or government
3. Were incurred during the period from March 1, 2020 through December 30, 2020

In early September 2020, the U.S. Treasury issued clarified guidance specific to school districts' use of CRF funds. This guidance broadly states that CRF payments may be used to cover costs associated with providing distanced or in-person learning and that, "as an administrative convenience, Treasury will presume expenses of up to \$500 per elementary and secondary school student to be eligible expenditures, such that schools do not need to document the specific use of funds up to that amount." While the Treasury guidance provides flexibility relative to the eligibility of costs that can be applied to CRF funds, there remains some uncertainty surrounding the nature and extent of documentation that school districts will be required to produce and retain to support how the funds were used. Therefore, we encourage the School District to remain cognizant of any updates to requirements relating to CRF funds as they are made available.

Novi Community School District's July and August 2020 state aid payments included a total of \$2,431,811 in CRF funds that must be recognized as revenue during fiscal year 2021 for eligible expenses incurred from March 1, 2020 through December 30, 2020. In addition, the School District applied for Child Care Relief payments that will be funded with the Michigan Department of Education's CRF allocation.

- *Elementary and Secondary School Emergency Relief (ESSER) Fund* - The CARES Act also established a \$30.75 billion Education Stabilization Fund. Of the total \$389 million allocation to Michigan, the Michigan Department of Education (MDE) is required to apportion a minimum of 90 percent to LEAs based on the previous year's Title I formula. Although the State has no discretion in how this portion of the funding is to be allocated to eligible LEAs, school districts are still required to complete an application and budget by September 30, 2020 to be granted the award. ESSER grant funds can be applied toward a variety of allowable uses, including, but not limited to, coordination of efforts in response to coronavirus; provision of resources necessary to address the needs of individual schools, including learning materials and professional development; and other activities that are necessary to maintain the operation of and continuity of services in the school district and continue to employ existing staff.

A portion (9.5 percent) of the State ESSER Fund allocation is to be awarded competitively to school districts demonstrating the most need for remote learning connectivity and student mental health resources. Awards to individual school districts out of this reserve, known as ESSER Equity, are limited to 20 percent of the formula allocations. Applications were also due by September 30, 2020, and expenditures must have been incurred during the period from March 13, 2020 through September 30, 2021 to be eligible for reimbursement.

Novi Community School District's formula ESSER allocation is \$103,290.

- *Governor's Education Emergency Relief (GEER) Fund* - GEER funds will be awarded to school districts that are determined to be most significantly impacted by COVID-19. A total of \$60 million will be distributed to school districts based on the number of students in high-need student groups, including those that are economically disadvantaged, special education students, and English language learners. To be eligible for funding, a school district's concentration of economically disadvantaged pupils compared to total enrollment must exceed 50 percent. Applications for GEER funds are expected to be available on or around September 14, 2020, and districts will have until the end of 2020 to apply. GEER funds must be used to support connectivity and out-of-school learning time; address learning loss and student mental health; provide for remote learning materials and professional development; and other health, safety, and wellness needs identified, required, or recommended in the MI Safe Schools Return to School Roadmap.

In addition to the CARES Act funding described above, the School District may also have received or may be eligible to apply for the following grants designed to assist with responding to impacts of the pandemic:

- Child Care and Development Block Grant - CARES Act Supplemental Payments
- Head Start - CARES Act Supplemental Payments
- Federal Emergency Management Agency (FEMA) Grants
- Coronavirus Food Assistance Program (CFAP) Commodities
- Federal assistance from the intermediate school district

In order to maximize available funding and ensure compliance with federal rules and regulations, the School District should do the following:

- Obtain a clear understanding of program requirements, including allowable uses and time period in which eligible expenses must be incurred.
- Verify that procedures and internal controls are adequately in place to adhere to Uniform Guidance rules related to procurement, cash management, allowable costs, and subrecipient monitoring, as applicable.
- Ensure that policies and procedures have been created or amended in accordance with requirements set forth in OMB Memorandums M-20-17 (rescinded by and replaced with M-20-26 on June 18, 2020) and M-20-26 (expired on September 30, 2020), which provided agencies the ability to extend administrative relief to federal grant recipients.
- Document all decisions made to determine eligibility of emergency-funded costs.
- Refer regularly to accounting guidance issued by the Michigan Department of Education to ensure that federal grant revenue is recorded correctly and expenditures are tracked using the proper grant codes.

The COVID-19 pandemic has created a continuously changing environment for recipients of federal funding, including the School District. As future legislation is developed, guidance is updated, and additional challenges and opportunities are uncovered, we are committed to assisting you in navigating the complexities.

Michigan Public School Employees' Retirement System (MPERS) - Update on the Plans' Net Pension/OPEB Liabilities

Similar to the State of Michigan, the MPERS plan has a September 30 year end. With the adoption of GASB Statement Nos. 68 and 75, districts have been reporting their share of the MPERS plan funded status in the government-wide financial statements of the district.

At September 30, 2019, the pension portion of the MPERS plan had a net pension liability of approximately \$33.8 billion. This is an increase from the reported amount of \$30.7 billion at September 30, 2018, an increase of approximately 10 percent. This increase meant that, for the year ended June 30, 2020, districts reported a higher net pension liability than they had in the previous year, despite the fact that districts continued to make their required contributions to the plan during fiscal year 2020. One of the primary reasons for the increase in the liability was the result of a recently completed five-year experience study. The study results had the impact of increasing computed liabilities and contribution requirements. Additionally, the discount rate was lowered by 0.25 basis points, which also had the impact of increasing the pension liability.

At September 30, 2019, the retiree health care portion (OPEB) of the MPERS plan had a net OPEB liability of approximately \$7.3 billion. This is a decrease from the reported amount of \$8.1 billion at September 30, 2018, a decrease of approximately 10 percent. The discount rate was lowered by 0.20 basis points, which had the unfavorable impact of increasing the liability. However, this was largely offset by the results of a favorable experience study adjustment related to a decrease in the projected per person health benefits costs.

Fund Balance

The financial turmoil encountered during the preparation for final amendments to the School District's budget at the end of the 2020 fiscal year highlighted the importance of maintaining adequate fund balance. The unknown economic impacts of the pandemic led to communications from the State projecting significant School Aid Fund shortfalls, requiring districts to plan for the worst. Although the ultimate proration for 2020 totaled \$175 per pupil, rather than original estimates of \$650 to \$700 per pupil cuts, districts with adequate fund balance were best positioned to absorb this very late funding adjustment.

During the 2019-2020 school year, Novi Community School District's General Fund expenditures exceeded revenue by approximately \$1,379,000. This resulted in reducing the General Fund fund balance to approximately \$11,098,000 at June 30, 2020. Fund balance goals are often stated in terms of a percentage of total expenditures. As a point of reference, the statewide average for school districts at June 30, 2019 is approximately 14.20 percent of expenditures. The School District's fund balance percentage is 13.86 percent as of June 30, 2020.

Clearly, the School District will continue to face a difficult budgeting environment in 2020-2021 due to the unknowns surrounding the duration and impact of the pandemic on the State's economy and the School Aid Fund. School districts will need to strategically utilize federal grant funding and consider the impacts of educational service delivery on pupil count. Fund balance management will be an essential element for district success moving forward in these uncertain times.

Significant Changes in the Future to the Financial Reporting Model for Schools

Under the current Governmental Accounting Standards Board (GASB) standards, school districts have been reporting using the current framework for approximately two decades. While the current financial statement presentation has worked, the GASB is looking to improve its effectiveness for all governments.

This project kicked off in August 2013. Recently, exposure drafts were issued in June 2020 titled “Financial Reporting Model Improvements” and “Recognition of Elements of Financial Statements.” The GASB’s goal is to have final standards issued by June 2022.

Once adopted by the GASB, these new standards will have a significant impact on the accounting and financial reporting for school districts. Currently, school districts account for activity in the funds using the modified accrual basis of accounting. The exposure drafts argue that, under the current model, there is no sufficient framework that ensures that governmental entities are consistently reporting similar types of transactions in their financial statements. They also argue that the time period looked at for certain transactions in fund accounting is too short and that the current method has too many piecemeal guidance points rather than a conceptual framework against which transactions can be applied in order to determine the correct accounting. Some of the proposed changes in the exposure drafts (which are significantly different compared to the current model) include the following:

- Requiring additional information in the management’s discussion and analysis (MD&A)
- In the budget-to-actual statements, requiring a column that would show the variances between the original and amended budget
- In the fund-based statements:
 - Significant terminology changes - “Revenue” will be referred to as “inflows of resources” and “expenditures” as “outflows of resources.” In addition, many of the statements will be renamed, and some of the fund-type definitions will be changed.
 - “Modified accrual” accounting would change to “short-term financial resources measurement focus.” Generally, transactions would be accounted for in the governmental funds if they are expected to be converted to cash or paid in cash within 12 months of the school district’s year end. A typical example would be revenue recognition. Under today’s rules, if a receivable is not collected within 60 days of the school district’s year end, then the related revenue, generally, must be deferred until the following year. Under the proposed changes, the revenue can be recognized in the current period as long as it will be collected within one year of the current period end. In this example, revenue in the funds may be recognized sooner in the proposed new model as compared to the current model. This change will impact the timing of when revenue and expenditures are recorded in the governmental funds; in addition, the actual financial statements themselves will actually look quite different from a presentation perspective. This is a significant change.

The exposure draft allows for a phased adoption. Districts with total annual revenue (across all funds) over \$75 million will adopt in the year ending June 30, 2025. Those under \$75 million will adopt in the year ending June 30, 2026. We will continue to monitor progression very closely. When the new standards ultimately get issued, we will work with your business office to ensure smooth and efficient adoption.

Understanding and Managing Potential Threats to Your Data

Before the pandemic, education was one of the top targets for ransomware attacks. Working remotely during the pandemic has led to a global rise in cyberattacks. School districts shifted to remote learning quickly; in so doing, security controls may have been relaxed. In today's age of continual reports of cyberattacks, school districts need to be aware of where potential risks lie and how they are addressed and communicated to employees and the public.

When it comes to cybersecurity, the human element is still the weakest link and most targeted, as passwords like "August2020" can be easily guessed, and emails continue to trick people into clicking links and opening attachments. Information security is a district-wide issue, not just an IT department responsibility, requiring a combination of people, processes, and technology to effectively secure student, employee, and financial data. Now is the time to take a step back and assess exactly where your data is and the controls surrounding it.

Key questions to ask include the following:

- Do you know where all of the various data resides in the School District? Are employees storing district data with personally identifiable information (PII) or that is subject to FERPA on file-sharing sites or flash drives? Is the data being emailed to personal accounts?
- How secure is your data with at least a portion of your students and teachers working remotely?

Having an external party do an assessment on vulnerabilities may provide additional support to the IT team for initiatives it is implementing, providing peace of mind for the board that vulnerabilities have been assessed and addressed and allowing for confident communication to the public that its student and employee data is secure. If you are interested in discussing this further, we would be happy to continue the conversation.

IT Assessment and Planning

The success of the "Return to Learn" plan for many districts is predicated on reliable, robust, and secure technology, as well as an effective IT support function. The impact of the pandemic and remote working and learning on the IT support operations cannot be overstated. In a matter of weeks, many IT departments shifted from supporting teachers and staff to supporting teachers, staff, students, and parents, resulting in an incredible increase in support requirements. Regardless of how many students are now in a remote learning environment, the School District's IT support requirements have changed.

This may be a good time to consider an IT assessment that reviews information technology from people, process, and technical perspectives. Areas of focus include governance, IT staff and organization, use of external service providers, service delivery, network and device management and monitoring, cybersecurity policies and procedures, and the technology itself. An IT assessment provides an objective evaluation of current operations with an actionable plan for improvements and enhancements. Many districts use the results of an IT assessment as their action plan for the next two to three years. We would be happy to discuss how we can help.

Disaster Recovery Planning/Business Continuity Planning

The last six months have highlighted the need for business continuity planning and, by association, disaster recovery planning. While not the same as a pandemic plan, school districts today need an updated business continuity plan, including plans for both pandemics and disasters.

If districts currently do not have an updated IT disaster recovery plan (DRP) in place, it is essential to prepare one outlining (1) what constitutes a disaster, (2) how a disaster is declared, and (3) what actions will be undertaken (and by whom) in the event of a disaster. Included in the planning process are two assessments: (1) a threats and risk assessment identifying and evaluating potential threats and their likelihood and (2) a business impact analysis evaluating the criticality and dependencies of various systems. These analyses are then used to develop recovery strategies, including the identification of restoration targets in terms of time (e.g., the system will be up and running within 24 hours).

DRPs should be collaboratively developed, including IT and business owners of the various systems. Plans should also be tested on a regular basis to ensure that staff understand their roles and responsibilities, the technologies work as intended, and the action items in the plan are appropriately identified. We would be happy to discuss how we can assist the School District.