Gull Lake Community Schools

Report to the Board of Education

June 30, 2022

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To the Board of Education
Gull Lake Community Schools

We have recently completed our audit of the basic financial statements of Gull Lake Community Schools (the "School District") as of and for the year ended June 30, 2022. In addition to our audit report, we are providing the following results of the audit, summary of unrecorded possible adjustments, other recommendations and observations, and informational items that impact the School District:

We are grateful for the opportunity to be of service to Gull Lake Community Schools. We would also like to extend our thanks to Lisa Anderson 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 17, 2022

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Results of the Audit

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October 17, 2022

To the Board of Education
Gull Lake Community Schools

We have audited the financial statements of Gull Lake Community Schools (the "School District") as of and for the year ended June 30, 2022 and have issued our report thereon dated October 17, 2022. 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 May 5, 2022, 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 17, 2022 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 June 9, 2022.

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.

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As described in Note 2, the School District adopted the provisions of Governmental Accounting Standards Board Statement No. 87, *Leases*. The adoption of the standard did not have a significant impact on the financial statements.

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 postemployment 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, 2022 were $49,229,140 and $3,225,636 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 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.

The attached schedule summarizes uncorrected misstatements of the financial statements that were requested to be recorded. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. However, uncorrected misstatements or matters underlying those uncorrected misstatements could potentially cause future period financial statements to be materially misstated.

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 Board of Education 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 17, 2022.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 17, 2022.

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 the 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

Matthew A. Kelly

Matthew Kelly, CPA
Partner

Corey VanDyke

Corey VanDyke, CPA
Principal

Summary of Unrecorded Possible Adjustments

Gull Lake Community Schools

Summary of Unrecorded Possible Adjustments

Client: Gull Lake Community Schools
Opinion Unit: Governmental Activities
Y/E: 6/30/2022

SUMMARY OF UNRECORDED POSSIBLE ADJUSTMENTS

The pretax effect of misstatements and classification errors identified would be to increase (decrease) the reported amounts in the financial statement categories identified below:

Ref. #	Description of Misstatement	Current Assets	Long-term Assets	Deferred Outflows of Resources	Current Liabilities	Long-term Liabilities	Deferred Inflows of Resources	Net Position	Revenue	Expenses	Change in Net Position Impact
FACTUAL MISSTATEMENTS:											
A1	Adjustment to State Aid revenue due to census changes to student counts				$ 50,547				$ (50,547)		$ (50,547)
											-
											-
JUDGMENTAL ADJUSTMENTS:											
B1	None										-
											-
											-
PROJECTED ADJUSTMENTS:											
C1	None										-
											-
		$ -	$ -	$ -	-	$ -	$ -	$ -	-	$ -	-
	Total	**$ -**	**$ -**	**$ -**	**$ 50,547**	**$ -**	**$ -**	**$ -**	**$ (50,547)**	**$ -**	**$ (50,547)**

PASSED DISCLOSURES AND FINANCIAL STATEMENT PRESENTATION ISSUES:

Ref. #	Description
D1	None

Client: Gull Lake Community Schools
Opinion Unit: General Fund
Y/E: 6/30/2022

SUMMARY OF UNRECORDED POSSIBLE ADJUSTMENTS

The pretax effect of misstatements and classification errors identified would be to increase (decrease) the reported amounts in the financial statement categories identified below:

Ref. #	Description of Misstatement	Current Assets	Long-term Assets	Deferred Outflows of Resources	Current Liabilities	Long-term Liabilities	Deferred Inflows of Resources	Fund Balance	Revenue	Expenses	Change in Fund Balance Impact
FACTUAL MISSTATEMENTS:											
A1	Adjustment to State Aid revenue due to census changes to student counts				$ 50,547				$ (50,547)		$ (50,547)
											-
											-
JUDGMENTAL ADJUSTMENTS:											-
B1	None										-
											-
											-
PROJECTED ADJUSTMENTS											
C1	None										-
											-
		$ -	$ -	$ -	-	$ -	$ -	$ -	-	$ -	-
	Total	**$ -**	**$ -**	**$ -**	**$ 50,547**	**$ -**	**$ -**	**$ -**	**$ (50,547)**	**$ -**	**$ (50,547)**

PASSED DISCLOSURES AND FINANCIAL STATEMENT PRESENTATION ISSUES

Ref. #	Description
D1	None

Other Recommendations and Observations

GASB Implementation Guide Update 2021-1

The GASB recently issued an implementation guide that clarifies certain points in the accounting standards. The guide includes an update to existing guidance from a past implementation guide related to accounting for fixed assets. It clarifies that items purchased in a group that are individually below a school district's capitalization threshold but exceed the capitalization threshold in the aggregate should be reported in the school district's fixed asset records. The clarified guidance goes into effect in the year ending June 30, 2024. The School District should review its current practices and written policies to ensure that they align with this clarified guidance.

Food Service Fund - Fund Balance

We noted that the fund balance of the Food Service Fund exceeds the U.S. Department of Agriculture's maximum allowance of three months' worth of operating expenditures. If not yet completed, the School District will be required to develop a spenddown plan for reducing the balance to an acceptable level. This plan will be required to be submitted to the Michigan Department of Education.

Implementation of ERP System and Segregation of Duties

As the School District is transitioning into the new Skyward ERP system during 2022-2023, and assigning user roles, responsibilities, and access within the system, we recommend the School District ensure an appropriate level of segregation of duties is considered. The School District should provide access to specific areas and modules within the financial system only to the users who need the access and should ensure there is an appropriate system of checks and balances in place. A few best practices to consider are as follows:

- Limit the users with full administrative access to the system to no more than two individuals, both of whom are outside of the business office (i.e, an individual in the IT team).
- Require a secondary approval for all manual journal entries before they can be posted to the system.
- Require a secondary approval in order to add a new vendor or modify an existing vendor's details (i.e., address, payment information, etc.) before it can be added into the system.

Informational Items

School Funding - From Projected Hardships to the Largest Level of Funding Since the Start of Proposal A

When we entered the pandemic in 2020, the initial predictions were for budget cuts, prorations, and financial hardships. While operational hardships were substantial and challenges continue, the financial hardships did not materialize. In fact, with a substantial amount of federal assistance, along with a quick economic recovery following the short-lived recession during the early period of the pandemic, funds available for education from the state and federal government have increased. These events have provided significant new resources for education. While some are nonrecurring funds with a specified end date, others are designed to provide continuing investment in education. Key highlights of school funding include the following:

- In 2021/2022, the funding levels between the base foundation and the target foundation were eliminated, ending the equity gap and putting most districts at the same per pupil funding level for the first time.
- In 2022/2023, schools are seeing the largest increase in per pupil funding since the start of Proposal A (1994/1995).
- Increased state contributions, above the constitutionally required minimums, toward covering the cost of special education
- Increased contributions to reduce the long-term cost of the retirement system
- State and federal resources to fund additional learning support services
- Primarily federal investments to help address learning loss resulting from the pandemic
- Federal contributions to assist in paying for additional staffing costs resulting from the pandemic
- Resources to make one-time investments in education resources and technology

Most of these investments were initiated in the 2021/2022 school year, and many carry forward or are expanded into the 2022/2023 fiscal year. While state revenue estimates suggest that resources will continue to be available into 2024, the recent economic changes could potentially restrain some of those projected outcomes. Careful monitoring of legislative decisions and economic trends will continue to be important as the School District plans for its financial future.

Managing the Significant Influx of Financial Resources

Since 2020, the School District has faced a continuously changing environment during the pandemic. Since last year, school districts have seen an influx of new federal grants and targeted state funding. These financial resources have had more specific compliance requirements and targeted usage requirements. In addition, as operations continue to normalize, school districts have been able to think more creatively about how to leverage the resources provided. While the infusion of resources provides great educational opportunity, the combination of events continues to strain school district resources to plan, implement, and manage these educational investments. In addition to the operational challenges, these resources have placed new accounting, compliance, and record-keeping requirements on the School District. Planning will continue to be critical to put the School District in the best position to take advantage of these nonrecurring resources.

We understand the unique challenges school districts have faced during the pandemic and have worked closely with state and federal decision-makers throughout the pandemic. As a strategic partner to school districts, our goal continues to be advocacy for public education by meeting with these decision-makers before actions are finalized so that these groups can be well-informed of the implications their actions will have on the students, your business office, and your financial statements. We continue to work with federal and state agencies as new or revised accounting and compliance guidance is developed so we can help school districts be better equipped to manage the new rules and requirements. To that end, as guidance is updated and opportunities are identified, we will continue to provide updates to aid the School District in managing changes and navigating complexities. We appreciate the extra efforts by the Board of Education, administration, teachers, and support staff to bring the School District through one of the most extraordinary times in education. We thank you for the opportunity to work side by side with your team during these unprecedented times.

State Aid Funding

Since the start of the pandemic, state funding levels were difficult to predict. Beginning in the 2021/2022 budget year, the State's Consensus Revenue Estimating Conference was finally able to conclude that the State's ability to generate revenue was sustainable and that funding growth was reasonably predictable. As a result, beginning in 2021/2022, it was concluded that there were funds available to spend. The 2021/2022 amendments to the State Aid Act provided funding increases, made investments in some key educational priorities, and focused more specifically on leveraging the allocation of federal funds provided by the American Rescue Plan.

- **2021/2022 State Funding:** Stability within the School Aid Fund improved, and the fund had a surplus for the fiscal year ended 2021. The Consensus Revenue Estimating Conference predicted there would be sustainable revenue for the next few years. This view also continued with the estimates developed in 2022. All schools were moved to the target foundation allowance of $8,700 per pupil, which means the equity gap between the base foundation and the target foundation has finally been eliminated. In addition, all schools, including hold harmless districts, received an increase of at least a $171 per pupil. As an added benefit, funding progress was made related to recommendations resulting from the School Finance Research Collaborative, which includes increased funding levels for special education; At-Risk; wraparound services, such as nurses and counselors; and Great Start Readiness Program (GSRP).

- **2022/2023 State Funding:** While 2021/2022 showed progress in financial stability, 2022/2023 showed an ability to make significant new investments in education. Key highlights include the following:

    - Increasing the target foundation allowance by $450 per pupil to $9,150, a 5.2 percent increase. Hold harmless school districts also receive the $450 per pupil increase.

    - Continuing the traditional blended pupil count methodology, with 90 percent weighting for the October 2022 count and 10 percent weighting for the February 2022 count

    - Continuing to increase the level of special education cost reimbursement. While individual school district allocations to support special education are substantial, 2022 and 2023 mark the first time since the start of Proposal A that special education allocations have exceeded the state constitutional minimum levels.

    - Increasing funding for the GSRP, creating 1,300 new openings for students

    - Section 31a/At-Risk programs becoming fully funded. Previously, a proration was applied to school district payments since the appropriation did not fully fund the program.

    - Increasing funding for career and technical education programs (vocational ed.)

    - Increasing funding for student mental health services

- Increasing teacher recruitment resources, including $10,000 in tuition support for future teachers, $9,600 stipends per semester for student teachers, and creation of “Grow Your Own” programs to help support staff pursue career advancement toward becoming a teacher
- Funding for expansion of before- and after-school programs with a focus on at-risk and economically disadvantaged students
- Dedicating school safety funding for hiring of school resource officers, creating intervention systems, and establishing a school safety commission
- Increasing allocation for contributions to the retirement system to reduce its long-term cost
- Allocating $475 million of state aid funds for a school consolidation and infrastructure fund. This is significant, as it is the first time the State has made such an allocation. This type of infrastructure investment is common in many other states.
- Intermediate school district (ISD) operations allocation increasing to 5.2 percent to mirror the increase in the foundation allowance

- **Federal Resources:** Since March 2020, the federal government has been providing financial assistance that directly benefited school districts. The funding is being provided in several waves, which began in 2020, with most funding ending in 2024. While the COVID-19 relief funds did provide more flexibility in spending than traditional federal grants, funding under the most recent programs (ARP ESSER III and Section 11t) has included more restrictions. As a result, use of those funds through 2024 will require more careful planning and execution by the School District. Some of the funding may have been used by the School District to fund recurring cost of operations; therefore, it will be important for the School District to consider the budget impact this will have once these resources are no longer available.

- **Looking Forward:** The most recent Consensus Revenue Estimating Conference estimates that the School Aid Fund will remain healthy when projecting out the financial picture over the next few years. These predictions were finalized in May 2022. As we look forward, more economic uncertainty has begun to take shape. In addition, this fall brings an important election cycle. If the economic or political landscape were to change significantly, so could the nature, type, and level of resources available to public education. Careful monitoring of these factors will be necessary in order to make reasonable budget assumptions moving into 2023 and beyond.

2022 Funding Implications for the School District

The School Aid Fund will complete the State’s 2022 fiscal year with a significant fund balance and is expected to continue to generate funding growth from nonfederal sources for the next few years. As a result, amendments to the State Aid Act for the 2022 fiscal year included several additions to the school funding picture. These included the following:

- **2021/2022 Foundation Allowance:** All districts received at least a minimum level of funding, which was established as the target foundation allowance. Any school district that was not at the target level in 2021 was increased to the new target foundation of $8,700 per pupil. Districts already at the target received a $171 per pupil increase from the former target level of $8,529. The few school districts in the state above the target also received the $171 per pupil increase. Based on these changes, the School District’s foundation allowance per pupil is going to be $8,700, representing an increase of $589 from the 2021 funding level.

- **Elementary and Secondary School Emergency Relief (ESSER) Programs:** Over the course of the pandemic, school districts have received ESSER payments under ESSER I, II, and III. ESSER III was made available during the 2021/2022 fiscal year and is made up of two components, ESSER III formula and ESSER III equalization (also known as 11t, as authorized by Section 11t of PA 48 of 2021). It is federally funded under the American Rescue Plan and, in general, includes more restrictions than ESSER I and II. As a result, use of ESSER III funds requires additional planning and community input by the School District. The ESSER III funding period is scheduled to end during 2024. This is the last iteration of pandemic funding expected to be received by the School District.

- **Pupil Membership Blend for 2021/2022:** In 2021/2022, the "super blend" formula from 2020/2021 was not used, and pupil count determinations used the historic blend of 90 percent of the fall and 10 percent of the spring counts. The blended pupil count will be used to determine the total foundation allowance paid to the School District.

- **Summer School and Learning Assistance:** As part of the process to return to in-person learning in fall 2021, significant emphasis was placed on summer school. As a result, significant resources were made available to school districts for summer 2021 to assist in this effort. Resources included federal funding for summer programming, credit recovery, and before- and after-school programming as part of the ESSER II Fund. In addition, state aid funding was appropriated for innovative summer programming or credit recovery programs. School districts were required to establish a plan to use these funds for supplemental programming. Because of the timing of these programs, some costs and revenue were recognized in the 2021 fiscal year and some were recognized in the 2022 fiscal year.

- **Michigan Public School Employees' Retirement System (MPSERS) Cost for 2021/2022:** The basic structure, including MPSERS cost support provided by the School Aid Fund, will continue. For 2022, the overall contribution rate is increased to 43 percent from 42 percent, with the net cost to the School District approximating 28 percent. While the net cost to the School District changes marginally, the overall contribution rate continues to increase. 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. With improved health of the School Aid Fund, the governor and Legislature continue to provide additional resources to reduce the net cost of school district contributions to the retirement system. 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 $254,443 in 147a1, $423,167 in 147a2, $3,335,093 in 147c1, and $80,757 of 147e funding.

New Federal Funding Considerations - 2022

As a result of the pandemic, school districts began to experience a significant influx of new federal grant funding, essentially coming in three waves. The initial wave occurred shortly after the start of the pandemic in 2020, with resources becoming available in late spring 2020. The second wave began in late 2020 and into 2021. The third wave began in August 2021 when the grant application window opened for the most recent round of grant funding. As is the case with most federal funding, these federal grants have compliance strings attached and require additional time and attention by school districts to evaluate and ensure proper use. In addition, for many school districts, the amount of funding available is substantial, creating a unique challenge regarding how best to deploy the funds in accordance with the rules. The key awards impacting education over the next several years are as follows:

- **Elementary and Secondary School Emergency Relief Fund:** ESSER has four release periods. ESSER I was made available in spring 2020. However, guidance was limited, and few school districts elected to spend ESSER I funding until the start of the 2020/2021 school year. Due to political issues within the state government, ESSER II was released in two phases. The first phase was made available to districts in summer 2021, and the second phase followed in fiscal year 2022. ESSER III, which is about four times the size of the total ESSER II funding, was made available beginning in August 2021. ESSER III 11t (ESSER III Stabilization) applications were due by June 15, 2022. Several compliance requirements are applicable for all the ESSER awards, and ESSER III and ESSER III 11t are more narrowly targeted at addressing learning loss in students. Determining how best to use each set of the funds awarded requires strategic analysis of the organization and careful planning in the budget process for each school district.

In addition to ESSER funding, the School District may have also 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
- Personal protective equipment (PPE) funded with federal grants received from outside organizations
- Federal assistance from the intermediate school district, a municipality or county, or other organizations
- Emergency Connectivity Fund (ECF)

In order to optimize available funding, address learning and operational needs, plan for the future, and ensure compliance with federal rules and regulations, the School District should consider the following:

- Obtain a clear understanding of program requirements, including allowable uses and the time period in which eligible expenses must be incurred, some of which are modified once the American Rescue Plan funding (generally ESSER III) becomes available.

- Update and maintain procedures and internal controls to adhere to Uniform Guidance rules related to procurement, cash management, allowable costs, subrecipient monitoring, and reporting, as applicable.

- Incorporate MDE guidance regarding accounting for state and federal pandemic-related funding activity.

- Document all decisions made to determine allowability of pandemic-related costs.

- Refer regularly to accounting guidance, which is updated frequently and 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.

2023 Funding Implications for the School District

With improved financial health and more predictable revenue streams, the governor and Legislature were able to come to an agreement on the school aid package, the largest ever, before the beginning of the School District's 2022/2023 fiscal year. This means that going into the fiscal year, the School District is able to estimate the financial inflows more accurately for 2022/2023 before the school year starts. However, since the state budget was passed after the period when school districts needed to have their original budget in place for 2022/2023, it is likely that the School District will need to consider a budget amendment. This is especially true given the number of new initiatives included in the 2022/2023 amendments to the State Aid Act, which may provide access to additional resources that the School District may not have anticipated. As is always the case, careful planning is critical to ensure any new funding is carefully utilized. A few key elements include the following:

- **2022/2023 Foundation Allowance:** All school districts are at the target foundation allowance of $9,150, except for the few hold harmless districts.

- **Pupil Membership Blend for 2022/2023:** Pupil count determinations use the 90 percent of the fall 2022 count and 10 percent of the spring 2022 count. The computed pupil count will be used to determine the total foundation allowance paid to the School District.

- **MPSERS Cost for 2022/2023:** The basic structure, including cost support provided by the School Aid Fund, will continue. For 2023, the overall contribution rate is increased to 45 percent from 43 percent, with the net cost to the School District continuing at up to approximately 28 percent. While the net cost to the School District is essentially the same as in 2022, the overall contribution rate continues to increase. By way of comparison, when Proposal A was adopted, the total contribution rate was 11 percent. The implication is that more resources are redirected from the funding of operations to the support of the retirement system funding requirement. With the 2022/2023 amendments to the State Aid Act, the State has further increased its investment in the retirement system with the goal of reducing the overall cost of the program over time.

- **Special Education Services:** Beginning in the 2021/2022 fiscal year, the State increased the funding of its share of special education costs by 3 percent of those costs. In 2022/2023, that support continues, plus it reduces the amount of foundation allowance that is credited as payment against the State's required support. These changes in the funding formula will have the effect of providing more state support to cover the cost of special education operations. The implication to the School District will be that more funds will be freed up to support other general education activities. The actual amount of the shift will vary by district and require some analysis. Once determined, school districts will be better able to budget and plan for use of those funds.

- **New Initiatives:** As outlined in the key highlights above, there are several new initiatives included in the 2022/2023 amendments to the State Aid Act. Through the budget development process, there were priorities from the governor and Legislature. Normally when this occurs, there is significant negotiation, and there are "winners" and "losers." However, since the revenue projections were well above expectations, there was room for funding most of the priorities from both branches of government. Many of the initiatives result from common themes, including the pandemic, mental health concerns of students and staff, addressing the teacher shortage, school security, continuing investment in preschool, vocational/career training, and beginning to focus on educational infrastructure investment. How these initiatives impact individual school districts will take some assessment and planning. With new resources comes new responsibility to determine the most effective way to leverage these funds for the benefit of the students, staff, and the School District.

- **Pupil Count Trends:** During the pandemic, in general, public schools across Michigan experienced a decline in enrollment. Statewide enrollment has historically been slightly under 1.5 million students. Prior to the pandemic, annual enrollment figures were declining annually at about 10,000 per year. However, during the pandemic statewide enrollment decreased in excess of 50,000. As part of the Consensus Revenue Estimating Conference process, total enrollment is tracked and estimated. A key consideration in the projections continues to be to what extent the 50,000 student reduction will recover. Currently, it is estimated that some portion will return, but enrollment will not recover to pre-pandemic levels. While this data is important statewide, it is very important at the local district level. Since the foundation allowance is computed on a per pupil basis, a stable and predictable enrollment will have a substantial impact on the financial picture. As a practical example, on average, it takes about 10 students to fully fund a teacher position. As districts continue the return to in-person instruction and offer new learning options, focusing on recruiting students and families will be essential to improving student enrollment.

Looking Forward to 2024 and Beyond

The May 2022 Consensus Revenue Estimating Conference provided a look into 2023, 2024, and 2025. There is a surplus in 2022 to carry over to 2023, and surpluses are expected for 2024 and 2025. With the significant unexpected revenue influx in 2022 and projected revenue levels for 2023, these surpluses provide an unusual opportunity for school funding in Michigan. In addition to the budgets passed for 2023, the governor and Legislature have left room in the short term for supplemental funding measures or some form of tax cut. As we head into a fall election, it is likely there will be some movement in one or both of these areas before the election. While optimism is high for the state budget, there are two key matters that could negatively impact the financial picture. They are inflation and the potential for recession. Clearly, the 5.2 percent increase in the foundation is a rate higher than ever seen under Proposal A. However, if inflation remains at these historically high levels for a sustained period, much of that increase may be consumed by the higher cost of operations. Similarly, if a recession does occur, it will likely negatively impact future revenue projections limiting the potential to fund future school district operations. Balancing such factors when planning future budgets will be essential for sound financial management.

The strong funding position of the School Aid Fund comes as the infusion of new federal pandemic funding is winding down. While there is still substantial funding that has been allocated but not yet spent, the window for use of the majority of those funds will close by September 30, 2024. These funding factors place a high degree of need for school districts to carefully plan budgets and spending priorities. Choosing how best to manage needs and priorities will be a continuing challenge over the next two years. Factors to monitor as we look into the future include the following:

- The extent of a continuing economic “bounce back” currently experienced by the State
- The impact as federal stimulus will wane during the next two years and to what extent state funding will assist in replacing those federal resources
- The success of returning to in-class instruction and attracting students to the School District
- Pupil count trends as schools continue to monitor the extent to which students who left public schools during the pandemic will return
- Continuing commitment to address learning loss resulting from the pandemic
- Short-term and longer-term student enrollment changes resulting from the pandemic
- Personnel shortages and the impact on providing services
- Potential staffing cost increases
- Operating cost increases resulting from unexpected inflation

- Supply and materials shortages
- Technology cost increases and access to technology learning tools
- Costs for school security and mental health services
- Cost trends for the retirement system and the extent to which state support is used from the School Aid Fund

The next Consensus Revenue Estimating Conference will occur in January 2023. As districts move into the 2022/2023 school year, they will need to carefully plan for how best to use the significant resources that have been provided during this unusual time in our school funding history.

Grants Management

Grants have always been a substantive area in school operations. Typical federal programs seen in most districts include Title I, Special Education, and Child Nutrition. These and other programs continue to be important and require significant skill, attention, and time to account for and adequately deploy those resources. With the advent of the pandemic, programs such as ESSER, GEER, and CRF have infused significant new federal resources into the School District. In addition, primarily through supplemental appropriations, the State has provided additional funding focused on pandemic relief. These events have significantly increased the workload, burden, and grants management risk across the School District. Some examples include the following:

- Superintendents and leadership team - Understanding what resources are available, what is required, how it will be measured, and how it will be staffed or equipped
- Board members - Setting policy in response to the pandemic and approving educational initiatives to respond to learning and operational needs
- Business office - Identifying, tracking, communicating, recording, and reporting on grant-related activities, when, in many cases, the rules and processes are unclear at the onset of the programmatic activity
- Staff - Delivering services in a pandemic-related environment
- Procurement - Identifying, initiating, acquiring, and delivering needed materials and equipment
- Information technology - Establishing and maintaining a safe, secure, and functional system so learning is delivered and operations are maintained
- Support services - Transitioning from in-person connection to remote to identify and provide needed support services to students and staff
- Facilities - Installing upgrades, managing building access, cleaning, and PPE

Each of these areas has been significantly impacted by the new grants and the expanded grants management process. Clearly, the reach and implications of pandemic-related funding are extensive. With that reach comes a significant challenge for the School District to ensure that resources, processes, and controls are in place. As the School District moves into the 2023 fiscal year, we suggest performing a risk assessment of its key processes and controls. This assessment and related action items can help ensure the School District has the pieces in place for an effective and efficient response to the grants management challenges.

Budgeting Considerations

The pandemic will have a substantive impact on district budgeting considerations for years to come. This includes both state and federal funding sources. As the additional federal funding is expected to decrease in the coming years, it is imperative that the School District ensure it has sufficient operation funds to move forward.

As we have seen, funding from the School Aid Fund has varied widely over the last two years. Fortunately, School Aid Fund projections suggest funding stability through 2024. However, that stability presumes a continually improving financial picture for the State of Michigan. If assumptions do not hold, there is a risk for continued variability in school funding. Any variability would have a direct impact on funds made available for school operations.

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

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

At September 30, 2021, the pension portion of the MPSERS plan had a net pension liability of approximately $24.2 billion. This is a decrease of approximately 30 percent from the reported amount of $35 billion on September 30, 2020. One of the primary reasons for the decrease in the net liability was net investment gains. However, keep in mind that these gains are in relation to the year ended September 30, 2021, and markets have significantly declined since that valuation date. As a result, it is expected that the net liability will significantly increase next year. The pension plan's annual investment rate of return was 27.2 percent for the year ended September 30, 2021 compared to only 5.0 percent for the year ended September 30, 2020.

At September 30, 2021, the retiree health care portion (OPEB) of the MPSERS plan had a net OPEB liability of approximately $1.5 billion. This is a decrease from the reported amount of $5.4 billion at September 30, 2020, a decrease of approximately 72 percent. The primary reason for the decrease was a 27.2 percent annual investment return for the plan year ended September 30, 2021 as compared to an annual return of only 4.9 percent for the year ended September 30, 2020. As a result, it is expected that the net liability will significantly increase next year.

Fund Balance

The first year of the pandemic, more than ever, highlighted the importance of having adequate fund balance due to the uncertainty of the state budget and the impact on the foundation allowance with prorations that went into effect. Having sufficient fund balance will help to ensure the School District can continue to provide an adequate level of programming during periods of economic uncertainty.

The 2022/2023 school year will face many challenges that will have a direct effect on the School District's fund balance. The Consumer Price Index (CPI) continues to grow, which will put inflationary pressures on nearly all school districts. Couple that with the budgeting pressures faced with how to spend the COVID-19 relief funds, and business offices will have a lot to consider and plan for when projecting out fund balance for the upcoming school year.

During the 2021/2022 school year, the School District's General Fund revenue exceeded expenditures by approximately $250,000. This resulted in increasing the General Fund fund balance to approximately $4,500,000 at June 30, 2022. 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, 2021 was approximately 19.30 percent of expenditures and outgoing transfers. Fund balance at the statewide average would approximately equal the School District's average operating costs for a 10-week period. The School District's fund balance percentage is 10.6 percent and equals approximately 6 weeks of operation.

Significant Changes in the Future to the GASB Financial Reporting Model

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. An exposure draft was issued in June 2020 titled "Financial Reporting Model Improvements." The exposure draft comment period ended during February 2021, and, as a firm, Plante & Moran, PLLC provided comments to the GASB on our thoughts of the proposed standards. The GASB's goal is to have final standards issued by December 2023.

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" would 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 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 would adopt in the year ending June 30, 2025. Those under $75 million would adopt in the year ending June 30, 2026. We will continue to monitor progression very closely. When the new standards are ultimately issued, we will work with your business office to ensure smooth and efficient adoption.

A separate but somewhat related project is also ongoing. In June 2020, the GASB released its preliminary views titled "Revenue and Expense Recognition." The objective of this project is to develop a comprehensive, principles-based model that would establish categorization, recognition, and measurement guidance applicable to a wide range of revenue and expense transactions. When the new standard is issued and adopted, it could result in revenue and expense transactions being reported either earlier or later than they currently are in school district financial statements. The GASB's current work plan anticipates that this new standard could be issued during 2027.

GASB Statement No. 96 - Subscription-based Information Technology (IT) Arrangements

This statement is effective for the School District's June 30, 2023 financial statements, and the requirements are very similar to GASB 87, *Leases*, which was adopted by the School District during 2022. While GASB 87 impacted the accounting for tangible property that was included in a leasing arrangement, GASB 96 accounting requirements will mirror the requirements of GASB 87, the difference being that GASB 96 applies only to subscription-based IT arrangements (i.e., software subscription agreements). Under current accounting rules, the monthly payments due under these arrangements are generally recognized as expenditures as they are incurred, and there are no full accrual-level reporting differences. GASB 96 requires recognition of a right-to-use subscription asset and a subscription liability (in the full accrual set of financial statements) for subscription-based IT arrangements that generally exceed one year in length. These amounts will be calculated based on the net present value of the extended payment terms of each contract. There will also be a change in the fund level accounting, as the expenditures reported monthly will be classified as debt service payments rather than being included in the functional categories as they are today. The new standard also requires additional disclosure in the notes to the financial statements. The statement was issued to improve accounting and financial reporting for subscription-based IT arrangements by governments.

To adopt the standard, the School District will have to identify and analyze all significant subscription-based IT contracts in place to determine the right-to-use subscription asset and subscription liability that will be required to be recognized upon implementation of the standard. Other departments outside of the business office may need to be involved in order to properly identify and locate all agreements subject to the new standard. It is important to begin the process of inventorying agreements early on to then determine the financial impact upon adoption. It is suspected that, in general, GASB 96 will have a more significant impact on school districts as compared to GASB 87, *Leases*, as it is expected that school districts have significantly more subscription-based IT arrangements as compared to leases for other tangible property.

GASB Statement No. 101 - Compensated Absences

School districts have historically been required to account for certain types of accumulated employee leave time in their financial statements; however, the existing standards were written many years ago, and significant changes have occurred since then related to the various types of compensated absences that exist today. The GASB recently adopted a new pronouncement that addresses the accounting for compensated absences, which include vacation, sick, and other paid leave time. Under GASB 101, the School District will record a compensated absence liability in the full accrual financial statements for leave time that (1) is attributable to services already rendered, (2) accumulates, and (3) is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means. The liability is to be recorded each reporting period, in the full accrual statements only, using each employee's pay rate as of the date of the financial statements. The new standard also removes the historic requirement related to disclosing the gross additions and reductions to the compensated absence liability in the financial statements, and, instead, a school district can disclose just the net change during the year. The new standard also removes the previous requirement to disclose which funds are responsible for liquidating compensated absence liabilities as they are paid.

This statement is effective for the School District's year ending June 30, 2025. The School District should begin to review the requirements of this new pronouncement, as it may have an impact on how the School District accounts for its compensated absence liability.

Understanding and Managing Potential Threats to Your Data

Education continues to be one of the top targets for ransomware attacks. Legislation called the "K-12 Cybersecurity Act of 2021" was signed into law in October 2021 in recognition of the significant risk to school districts.

Working remotely during the pandemic has led to a global rise in cyberattacks. School districts quickly shifted to remote learning; 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 "August 2022" 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:

- Are our teachers and staff appropriately aware of phishing and other cyberattacks?

- 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 data 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.

Operations Review and Controls Assessment

Roles and responsibilities have changed for many administrative and operations staff over the past few years due to increased reporting requirements, the pandemic, and reductions in staff count. Staff sizes have been reduced in many districts, while demands for services, technology, and reporting requirements have increased. An operations review can be very helpful to the School District in identifying ways to optimize the resources it has. The School District may benefit from reviewing and redesigning processes to ensure that only value-added steps are included in the process. Process redesign involves mapping current processes (e.g., facilities work orders, purchasing, and payroll) and identifying potential improvements by leveraging technology systems and/or eliminating steps.

When making changes to operations and processes, it is important for the proper controls to be implemented or remain in place. We have performed numerous reviews for school districts regarding the staffing, functions, responsibilities, controls, and communication within the business office, human resources, and facilities and operations to provide suggestions for increased efficiency, operational effectiveness, and/or improved reporting and analysis capabilities. We would be happy to discuss our capabilities in this area and the value we can bring to the process.

Taking Advantage of Data Analytics within K-12 School Districts

The School District collects more data than ever before, but has it helped you take meaningful action? The complexity of drawing actionable insight from larger disparate data sources often stands in the way of making better data-driven decisions. The landscape of opportunity within advanced analytics can create order from the chaos and transform your data into actions that make a difference. Understanding the right approach is based on an assessment of the goals of the School District. Based on our experience, we suggest school districts begin considering a few initial questions:

1. How can we better understand the needs of our student population?

It has become increasingly important to develop a deeper understanding of individual student, school, and district-wide performance. Actionable insight into your student population to create data-driven strategies is achievable through advanced analytics.

2. Where might we be overspending?

   When faced with tighter budgets in an evolving and fiercely competitive funding environment, schools are relying more heavily on their data than their instinct to detect leakages and eliminate inefficiencies in their operations. Leveraging advanced analytics can optimize your in-district delivery model and identify opportunities to reduce operational costs.

3. How can we develop a data-driven strategy?

   A staggering volume of education data is underutilized by school districts. Asking meaningful questions about the alignment of your data vision, people, processes, technology, and data governance is the first step toward preparing a data-driven strategy.