
Gull Lake Public Schools

Report to the Board of Education

June 30, 2024

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, 2024. In addition to our audit report, we are providing the following results of the audit, summary of unrecorded possible adjustments, and informational items that impact the School District:

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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 15, 2024

Results of the Audit

October 15, 2024

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, 2024 and have issued our report thereon dated October 15, 2024. 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 13, 2024, 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 September 30, 2024 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 letter about planning matters dated July 10, 2024.

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. No new accounting policies were adopted, and the application of existing policies was not changed during 2024 except for the adoption of Governmental Accounting Standards Board Statement No. 100, *Accounting Changes and Error Corrections*. 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 liability for the pension and net asset for the 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, 2024 were \$64,337,050 and \$1,101,423 for the pension liability and OPEB asset, 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.

As a result of our audit procedures, we identified a material misstatement, which was corrected by management, to increase accounts payable and related capital expense in the 2021 Capital Projects Fund. We identified additional misstatements as a result of our audit procedures, which were also corrected by management, however, none of them were material, either individually or in the aggregate, to the financial statements taken as a whole.

The attached schedule summarizes uncorrected misstatements of the financial statements. 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 this 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.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 15, 2024.

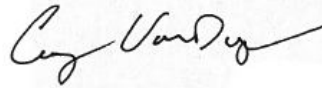
Management Consultations with Other Independent Accountants

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

A handwritten signature in black ink, appearing to read "Corey VanDyke", is written over a light gray rectangular background.

Corey VanDyke, CPA
Partner

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: 6/30/2024

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 the payroll related liabilities for unsupported liability recorded.				\$ (243,880)					\$ (243,880)	\$ 243,880
JUDGMENTAL ADJUSTMENTS:											
B1	None										-
PROJECTED ADJUSTMENTS:											
C1	None										-
	Total	\$ -	\$ -	\$ -	\$ (243,880)	\$ -	\$ -	\$ -	\$ -	\$ (243,880)	\$ 243,880

PASSED DISCLOSURES AND FINANCIAL STATEMENT PRESENTATION ISSUES:

D1 None

Client: Gull Lake Community Schools
 Opinion Unit: General Fund
 Y/E: 6/30/2024

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 the payroll related liabilities for unsupported liability recorded.				\$ (243,880)					\$ (243,880)	\$ 243,880
JUDGMENTAL ADJUSTMENTS:											
B1	None										-
PROJECTED ADJUSTMENTS:											
C1	None										-
	Total	\$ -	\$ -	\$ -	\$ (243,880)	\$ -	\$ -	\$ -	\$ -	\$ (243,880)	\$ 243,880

PASSED DISCLOSURES AND FINANCIAL STATEMENT PRESENTATION ISSUES:

D1 None

Informational Items

Managing the Changing Financial Resources Landscape

As fiscal year 2024/2025 kicks off, the school funding landscape is changing. Since 2020, the School District has faced a continuously changing environment. The pandemic created significant uncertainty, followed by a significant infusion of federal resources, and ultimately a stable and growing fiscal platform for the state budget. As new resources were added, new challenges were created to effectively plan, develop, deliver, evaluate, and account for the programs and services. Beginning with the 2024/2025 school aid budget, we have observed a change in the budget strategy. Projections suggest a slowing growth pattern for the School Aid Fund. For the first time in several years, the governor and Legislature were faced with difficult choices regarding what initiatives to fund or cut and where to modify funding levels, including the evaluation of initiatives that were borne out of the pandemic. While overall the School Aid Fund is as large as it ever has been, the ability to spread the funding to all desired initiatives is no longer realistic and school districts will have to monitor how funding changes will impact educational initiatives.

We understand the unique challenges school districts face within the changing funding landscape. We continue to work closely with state and federal decision-makers to both understand the changes and provide insight into potential implications. As a strategic partner and advocate for public education, we continue to meet with 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. Our work continues 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. 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 understand that the last several years have required substantial extra effort 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 also understand that the work is not done, and we appreciate the opportunity to work side by side with your team during this next chapter.

School Funding - School Aid in Depth

The 2023/2024 fiscal year began the process of exiting the pandemic-related funding environment. Funding continued to include significant state-sourced increases, significant new education investments, and some significant one-time resources. While the 2023/2024 School Aid Fund suggested state fiscal sustainability, the 2024/2025 School Aid Fund estimates suggested the School Aid Fund is moving toward slower growth rates. As a result, while the 2023/2024 budget provided significant new resources for education, the development of the 2024/2025 school aid budget required more creativity. This comes at a time when federal pandemic-related funding ends at September 30, 2024 with the conclusion of the federal ESSER programs.

2023/2024 State Funding: The May 2023 Consensus Revenue Estimating Conference identified availability of significant new resources. This allowed the State to continue to make investments in education, shore up funding for long-standing programs, make investments where new needs were identified, and respond to the changing financial structure as federal pandemic-related funding begins to come to a close. Key highlights impacting the School District's funding for 2023/2024 included the following:

- **Foundation Allowance:** Increased the target foundation allowance by \$458 per pupil to \$9,608, a 5 percent increase. Hold harmless school districts also received the \$458 per pupil increase. Cyber schools did not receive an increase and continued at \$9,150.
- **Pupil Count:** Continued the traditional blended pupil count methodology, with 90 percent weighting for the October 2023 count and 10 percent weighting for the February 2023 count. However, for declining enrollment districts, a provision was added to use a two-year blended count to slow the impact of the decline on current year revenue. A district qualified if its 2023 final membership count was lower than the 2022 final membership count. In this case, a school district received additional funding through Section 29.

- **Special Education:** Special education funding is now fully treated as categorical and is not using foundation allowance amounts to supplement its required payments under the Headlee Amendment. In 2023/2024, special education funding provided by the State was provided from Section 51 of the State Aid Act. In the past, a portion of the funding was provided from Section 20, where the foundation allowance is determined.
- **MPSERS Cost for 2023/2024:** The basic structure continued, including cost support provided by the School Aid Fund. For 2024, the overall contribution rate increased to 48 percent of payroll from 45 percent, with the net cost to the School District increasing from 28 percent up to approximately 31 percent. For the first time in several years, the net cost to the School District increased in fiscal year 2023/2024.
- **GSRP:** Increased funding for the Great Start Readiness Program (GSRP) improved by funding reimbursement at the same level as the target foundation allowance and increasing the income limits, which increased the number of families eligible to participate. These steps align with the goal of ultimately making preschool available to all in Michigan.
- **At-Risk:** Increased funding for Section 31a/At-Risk programs and used an opportunity index to better weight funding based on need
- **School Meals:** Section 30d provided universal free breakfast and lunch for the 2023/2024 fiscal year with the intention of continuing the program. The 2024/2025 School Aid Fund amendments continued funding for the program. The program is state funded and did not replace the federal Child Nutrition Cluster.
- **Transportation:** Additional transportation funding provided using a formula based upon riders per square mile
- **Mental Health and School Safety:** Additional one-time funding infusion for student mental health and school safety services
- **Student Loan Repayment:** One-time allocation for a student loan repayment program for districts to repay loans of employees who work directly with students. Note, this funding was not put into the system until late in the school year, creating some challenges in revenue recognition at June 30, 2024.
- **Retirement:** Increased allocation for contributions to the retirement system to reduce its long-term cost
- **ISD Operations:** Intermediate school district (ISD) operations allocation increased by 5 percent to mirror the increase in the foundation allowance.

2024/2025 State Funding: As the 2023/2024 school year was coming to a close, the May 2024 Consensus Revenue Estimating Conference predicted that there will be sufficient resources for current programs but suggested that the revenue growth in the School Aid Fund will continue at a slower pace than the previous two years. As a practical matter, the conference conclusions suggest the funding growth will mirror more closely the pre-pandemic growth levels. As schools entered the 2024/2025 fiscal year, the School Aid Bill was completed and signed into law. The bill provided for some funding increases and resources to fund new initiatives agreed to by the governor and Legislature. It also reduced the allocation for some one-time categoricals. It increased resources provided for retirement, and it did not provide a foundation allowance increase. Instead, the analysis of the bill indicates that the modifications, primarily with retirement funding, free up about \$400 per pupil for each district to spend on operations. Based on the mechanics of the School Aid Bill, not every district will realize a full \$400 benefit. Some key highlights of the School Aid Bill include the following:

- The target foundation allowance stays at \$9,608 per pupil for public schools. Public school academies received a 3.9 percent increase in their target foundation, estimated at \$9,983. The increase was due to the fact most academies do not participate in the MPSERS and are funded using a separate categorical.
- Funding continues for declining enrollment districts to smooth the impact of resulting revenue decline.
- For 2024/2025, the State's obligation under the Headlee Amendment will continue to be funded from the special education allocation within the school aid budget. Previously, a portion of that obligation was paid from the School District's foundation allowance allocation.
- Revisions to amounts provided in Section 147 (MPSERS categoricals) to increase funding for retirement. The increase in resources essentially replaces an increase in the foundation allowance. By reducing the net cost of the retirement contribution, the School District will have more resources to invest in ongoing operations. Notably, the revision to the funding strategy was crafted when the bill was in conference committee. Prior to the conference report, each version of the bill provided for an increase in the foundation allowance ranging from \$217 to \$302 per pupil.
- The MPSERS OPEB and pension funding has been the focus of School Aid Fund discussions for many budget cycles. For years, the OPEB plan was underfunded and had a very large net liability (referred to as the "UAAL"). The current issue focuses on OPEB, which is now considered fully funded, meaning that the plan now has sufficient assets to cover accrued health benefits for current and former employees' past services. State funding provides a contribution to districts to cover the UAAL costs, which is about \$669 million, statewide, for the historical OPEB UAAL. The 2024/2025 School Aid Bill redirects \$598 million of the savings back to the School District. This will be funded through a categorical, 147a4, and will represent approximately 5.75 percent of MPSERS-related payroll.
- GSRP receives an increase in funding and provides for more families to be eligible for free preschool. Now, families who are less than four times the federal poverty level will be eligible for free service.
- At-risk funding is now over \$1 billion. Revisions to the program include new flexibility provisions to reduce teacher-student ratio and support retention and recruitment efforts.
- Categoricals continuing without substantive change include, but are not limited to, the following: Transportation, Future Educator Fellowship, Student Teacher Stipend, and ISD Operations support.
- Many smaller categoricals were eliminated or had reduced funding. However, the most significant funding reduction was for mental health and school safety. Since this program was considered a one-time program, it was not considered a cut; however, districts that built programming around this funding will need to determine if other sources can be used to fund the programs.

- **Special Education Services:** In 2023/2024, use of the foundation allowance to contribute to the State's support of special education ceased, and the State's contribution to support special education is paid entirely from a categorical allocation. 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 varies by district and requires some analysis. This funding methodology continued for 2024/2025.

Many of these initiatives have their roots in the education issues encountered during the pandemic, along with the desire to continue to address the recommendations first identified in the Michigan School Finance Collaborative, which outlined priorities for responding to education needs. Careful planning to effectively leverage these funding sources, along with managing programs initiated during the pandemic, will be critical for school districts throughout the 2024/2025 school year.

Looking Forward to 2025 and Beyond

The May 2024 Consensus Revenue Estimating Conference provided a look into 2025, 2026, and 2027. Essentially, the conclusion from the conference indicates the expected funding levels are beginning to level off. The key implication is that it is unlikely that the School Aid Fund will be able to provide the same growth in resources available to public schools as we move into the future. Given that, in the last few years, several categoricals were added to the funding scheme, as well as significant increases to the foundation allowance, the revenue estimates suggest that funding modifications may be required. Since many of the added categoricals were labeled as one-time categoricals, it appears that these programs may be most at risk of adjustment in the future. For 2024/2025, we have already seen such an adjustment for mental health and school safety, where the funding levels were significantly reduced. We have also seen that there was no foundation allowance increase provided for 2024/2025. Instead, modifications were made to retirement funding, which essentially provided about \$400 per pupil of freed-up resources for districts to fund their operations. Key themes that continue to be areas of emphasis when evaluating future spending decisions include the following:

- **Federal Pandemic Resources:** The last major funding source is ARP ESSER III. It was funded as part of the Education Stabilization Fund and sunset on September 30, 2024. Some of the funding may have been used by the School District to fund recurring costs of operations. This date, referred to as the funding cliff, will require each district to evaluate its budget strategy to determine if resources supported recurring operations, and what resources will be available to fund continuing operations once the funds are depleted. The School District will need to closely evaluate the impact of the sunset of the ESSER funds on future budgets.
- **Sustainability of Initiatives from 2023/2024:** There were several initiatives included in the 2023/2024 amendments to the State Aid Act. Revenue projections continued to show significant growth, creating room to fund recent and new initiatives. 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, beginning to focus on educational infrastructure investment, meeting the special education funding requirements with categorical funds, and providing free meals to all students (new Section 30d). Many of these initiatives were carried forward and continued in the 2024/2025 amendments to the State Aid Act, but some were not due to resource constraints. The biggest example is the reduction in previously labeled one-time funding for mental health and school safety. Each initiative required assessment and planning by individual school districts. 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. The same challenges exist as districts assess the content of the 2024/2025 amendments to the State Aid Act.

- **Pupil Count Trends:** During the pandemic, most 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 students per year. However, during the pandemic, statewide enrollment decreased in excess of 50,000 students. 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. Current data suggests that some portion returned as the rate of decline slowed, 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 to operate in the post-pandemic period, continued focus on recruiting and retaining students and families will be essential to improving student enrollment.

The key lesson from the 2024/2025 budget cycle is that, since resources provided in the School Aid Fund are projected to return to a pace similar to pre-pandemic levels, the governor and Legislature will once again be forced to make difficult choices in deciding how to fund programs. In turn, school districts will be required to adjust to changes in funding priorities and ultimately how resources will be used for local district operations. Some of those challenges include the following:

- The impact of a recession on school funding, if it were to occur
- Fully utilizing the ESSER III allocation and how it will impact recurring operations once funding ends
- Staff retention and recruitment, including use of novel approaches, some of which are funded by state categoricals, for as long as they are in place
- Continued efforts at attracting and retaining students to the School District
- Pupil count trends and projections for school districts and school buildings to better plan staffing, infrastructure, and operational needs
- Evaluating programs addressing learning loss, including funding of programs once pandemic-related funding is concluded
- Planning for potentially expanded preschool services funded under an expanded GSRP, including identification and equipping of facilities
- Assessing food service operations as entering the second year of the new state-funded free breakfast and lunch program
- Potential staffing cost increases
- Operating cost increases resulting from inflation
- Technology cost increases and access to technology learning tools
- Costs for school security and mental health services, especially with the reduction in funding in 2024/2025
- Identifying, recruiting, and retaining staff to provide mental health and school security 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 2025. As districts move into the 2024/2025 school year, they will need to carefully plan for how best to use current resources as well as begin to plan for potential adjustments going forward as state funding growth begins to slow.

Michigan School Meals

Beginning in the 2023/2024 school year and continuing for 2024/2025, a free breakfast and lunch is available to all students in Michigan schools. This program, initiated with the 2023/2024 amendments to the State Aid Act, provides state-funded meals to all students who do not qualify for a free meal under the National School Lunch and National School Breakfast programs. For 2023/2024, the School District received \$1,054,235 in state funding under Section 30d for this program. The revenue supports the Food Service Fund and replaces the revenue previously received from student-paid meals. As a result of the program, most schools saw an increase in meals served to students. Some key observations include the following:

- Participation is not automatic. Districts apply using the Coordinated Application in the State's NexSys system.
- For a district to be eligible to participate, it must do the following:
 - Be a public school, charter school, or intermediate school district
 - Participate in the National School Lunch Program
 - Serve breakfast and lunch
 - Serve all meals at no cost to pre-K through 12th grade students
 - Adopt Community Eligibility Provision (CEP) to maximize federal reimbursement. Note that not all schools qualify for this provision under the federal program. If a district qualifies, the meals will be funded using that federal program, and the state program is not needed.
 - Collect relevant family income information
 - Write off all outstanding student negative balances
- The program works alongside and supplements the current federal National School Lunch and National School Breakfast programs and does not replace them.
- Districts will need to track and claim meals served similar to what is done for the federal programs.
- As noted above, districts must eliminate negative student account balances. In doing so, the Food Service Fund is not allowed to absorb the write-off. That removal requires funding from sources outside the Food Service Fund. The MDE provides guidance for how this should be accomplished.
- Many school districts are experiencing an increase in fund balance in the Food Service Fund beyond the state limitations for this fund. School districts will need to monitor and ensure that there is a spenddown plan that strategizes utilizing the fund balance for allowable costs.

With this approach to access to school meals, the potential for continued high participation rates is likely. Many districts saw increased demand on food service operations, including staffing levels, timing of meals, cafeteria seating, menu planning, and food orders in 2023/2024. As districts move into 2024/2025, it is likely there is a clearer expectation of the level of student participation and its impact on food operations. Using that information, schools should be better equipped to plan for effective food service operations.

Food Service Fund - Fund Balance

We noted that the fund balance of the Food Service Fund continues to exceed the U.S. Department of Agriculture's maximum allowance of three months' worth of operating expenditures. The School District should continue to monitor its spenddown plan, entered into with the Michigan Department of Education, for reducing the balance to an acceptable level.

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. Additionally, with the advent of the pandemic, programs such as ESSER, GEER, and CRF have infused significant new federal resources into the School District. These events have significantly increased the workload, burden, and grants management risk across the School District. As the pandemic programs wind down and reach the end of their individual grant periods, federal agencies, along with state-level pass-through agencies, have increased their oversight and scrutiny over the overall administration of the federal programs, including heightened focus on internal controls.

This provides a significant challenge for the School District to ensure that resources, processes, and controls are in place and operating as designed. As the School District moves into the 2025 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 and documented oversight reviews at the right levels.

Michigan Public School Employees' Retirement System (MPERS) - Update on the Plans' Net Pension Liability and OPEB Asset

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 several years ago, school districts have been reporting their share of the MPERS plan funded status in the government-wide financial statements.

At September 30, 2023, the pension portion of the MPERS plan for the State of Michigan had a net pension liability of approximately \$32.4 billion. This is a decrease of approximately 15 percent from the reported amount of \$37.9 billion on September 30, 2022. One of the primary reasons for the decrease in the net liability was the net investment returns. The pension plan's annual investment rate of return was 8.3 percent for the year ended September 30, 2023, compared to an investment loss of 4.8 percent for the year ended September 30, 2022.

At September 30, 2023, the retiree health care portion (OPEB) of the MPERS plan had a net OPEB asset of approximately \$566 million compared to the net OPEB liability of \$2.1 billion at September 30, 2022. This year marks a significant milestone for the OPEB portion of the plan, flipping from a net liability to a net asset. One of the primary reasons for the decrease in the net liability was the net investment returns. The pension plan's annual investment rate of return was 8.3 percent for the year ended September 30, 2023, compared to an investment loss of 4.8 percent for the year ended September 30, 2022.

Fund Balance

Fund balance, particularly in the General Fund, is critically important to ensuring the financial health and stability of the School District. Having adequate fund balance allows the School District to navigate through and respond to unexpected losses or revenue shortfalls, such as emergency repairs or decline in funding. It ensures the School District can continue its operations smoothly without disruptions, even in times of financial uncertainty. A healthy fund balance can also improve the School District's credit rating, making it easier and less expensive to borrow money when needed. Overall, having a healthy fund balance allows for better long-term financial planning and budget flexibility to ensure the School District's resources are being utilized in the most effective manner possible. Given the changing landscape in state and federal funding over the past few years, fund balance will continue to garner more attention among board members and key stakeholders.

During the 2023/2024 school year, the School District's General Fund revenue exceeded expenditures by approximately \$3,562,000. This resulted in increasing the General Fund fund balance to approximately \$8,489,000 at June 30, 2024. 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, 2023 was approximately 21.86 percent of expenditures and outgoing transfers. Fund balance at the statewide average would approximately equal the School District's average operating costs for an 11-week period. The School District's fund balance percentage is 16.71 percent and equals approximately 8.5 weeks of operation.

Upcoming Accounting Pronouncements

There are several upcoming accounting pronouncements that will have an impact on future financial statements of the School District.

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 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 only 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, including the cumulative effects of the accounting change on net assets as of July 1, 2024. Adoption will require assessments of historical data, and management should ensure this data is readily available to formulate assumptions.

GASB Statement No. 102 - Certain Risk Disclosures

This standard establishes financial reporting requirements for risks related to vulnerabilities due to certain concentrations or constraints. For those meeting the definition in the standard, the School District will disclose the concentration or constraint, related events that could have a substantial impact, and actions taken to mitigate the risk. The School District will need to carefully review the definition of concentrations and constraints to properly identify those that may require disclosure. This new standard is effective for the School District's June 30, 2025 year end.

GASB Statement No. 103 - Financial Reporting Model Improvements

The objective of this standard is to make improvements to the financial reporting model, including Statement 34, *Basic Financial Statements and Management's Discussion and Analysis - for State and Local Governments*, and other reporting model-related pronouncements. A key change to this standard from the exposure draft is the removal related to the recognition in and the presentation of governmental funds. The standard's scope includes management's discussion and analysis (MD&A); proprietary fund financial statement presentation, particularly the operating/nonoperating classification; budgetary comparisons; major component unit information; and the presentation of unusual or infrequent items. This statement requires that the MD&A be limited to the five topics noted in the standard and provides further guidance on how the MD&A should be written. For proprietary fund financial reporting, the statement defines operating and nonoperating revenue and expense. It also requires a new subtotal for operating income (loss) and noncapital subsidies. The statement prescribes that the budgetary comparison be reported only in the required supplementary information section of the statements and dictates what variance information to be included. Next, the statement requires that major component unit information be presented separately in the statements of net position and activities, with a caveat for readability. Lastly, the statement describes unusual and infrequent transactions and outlines how they should be presented separately. This new standard will be effective for the School District's June 30, 2026 year end.

Sinking Fund Legislation

The new legislation, which is effective August 6, 2023, amends previous sinking fund legislation to allow a school district to use its Sinking Fund to support certain transportation costs. Specifically, a sinking fund millage approved by voters after May 7, 2023 is now allowed to be used by school districts for the acquisition of student transportation vehicles and parts, supplies, and equipment used for the maintenance of student transportation vehicles. Funds may also be used for the acquisition of trucks and vans registered under the Michigan vehicle code, 1949 PA 300, MCL 257.1 to 257.923, and used to carry parts, equipment, and personnel for or in the maintenance of school buildings or for the acquisition of parts, supplies, and equipment used to maintain those trucks and vans.

Sinking funds authorized (1) prior to March 29, 2017; (2) between March 29, 2017 and May 7, 2023; and (3) after May 7, 2023 should be accounted for separately in the audited financial statements. Each separate fund should have its own balance sheet and statement of revenue, expenditures, and changes in fund balance for the fiscal year. The previous sinking fund language regarding the use of funds for purchase of real estate, buildings, building improvements, and technology was not amended, as those are still allowable uses of sinking funds approved prior to this amendment. A school district that levies a Sinking Fund must have an independent audit of its Sinking Fund conducted annually, including a review of the uses of the Sinking Fund.

Michigan Department of Treasury - Numbered Letter 2023-1: Bonded Construction Fund and Sinking Fund Reporting Changes

Historically, school districts were required to comply with the Michigan Department of Treasury's (Treasury) Bulletin 7 and Numbered Letter 2004-4 as related to the audit and reporting requirements of a bond-funded construction fund and sinking funds. During 2023, Treasury released Numbered Letter 2023-1, which supersedes Bulletin 7 and Numbered Letter 2004-4. Plante & Moran, PLLC participated in reviewing and providing feedback on the new guidance throughout the process of drafting it. The new guidance goes into effect for sinking fund and bond compliance audits that are required to be reported for the June 30, 2024 reporting period. It is important for school districts to review these changes to ensure compliance with the new audit and reporting requirements. Some of the primary changes include the following:

- School districts will no longer submit financial information upon bond closeout to Treasury. Rather, Treasury will gather the data it needs from the annual audited financial statements that are already being submitted to the Department of Education. School districts will, however, need to submit an annual transmittal letter to Treasury that includes notification on status of the bond-funded Capital Projects Fund.
- The determination of the completion date has been simplified. The completion date will always be the June 30 immediately following the later of (1) the certificate of substantial completion or (2) 95 percent of the bond proceeds being spent. It will then be expected that the auditor completes its work in conjunction with the submission of the School District's audited financial statements.
- For bonds with multiple series, if the series being audited are for projects that were all approved by the electors at the same time, the activity for all series may be accounted for within one fund.
- The activity associated with any sinking fund levies renewed after May 7, 2023 should be accounted for in a capital projects fund that is separate from any remaining fund balance associated with levies authorized prior to May 7, 2023. This could potentially result in a situation where the School District may need to create a separate capital projects fund to account for activity associated with levies authorized after May 7, 2023 if the School District has not yet spent all of the fund balance associated with levies authorized prior to May 7, 2023.

We have been working with the administration to ensure it is familiar with the new requirements.

Bond Investment Earnings - Arbitrage Considerations

Arbitrage is not a new topic; however, in the current environment of raising interest rates, it is a topic that has recently received more attention. So, what is arbitrage? To summarize, arbitrage is the difference between the interest expense paid by the bond debt issuer (school district) and the earnings on the invested bond proceeds. School districts are tax-exempt organizations and, therefore, subject to federal arbitrage compliance rules. As a result, the School District may be limited to the amount of investment earnings that it is allowed to retain. The arbitrage calculations are quite complex, and generally the School District needs to work with its bond advisor to ensure this computation is completed on a recurring basis. Generally, at the five-year anniversary of the original bond sale, a computation is also completed and used to report to the federal government any investment earnings in excess of what is allowed to be retained and is generally due back to the federal government (Internal Revenue Service). The annual arbitrage calculations are also utilized to determine if the School District should report an arbitrage liability at June 30 in the full accrual set of financial statements. No amounts are recognized in the capital projects funds until the year of the final calculation. At June 30, the School District has unspent bond proceeds that are accruing investment earnings. The School District completed its analysis, and it was determined that no arbitrage liability exists at June 30, 2024.

Inflation Reduction Act (IRA)

The Inflation Reduction Act was signed into law on August 16, 2022. Among other items, the IRA allocated \$369 billion over the next 10 years to fund energy and climate projects in an attempt to reduce emissions by approximately 40 percent by 2030. One of the components of the IRA is the availability of a direct-payment option, in lieu of a nonrefundable tax credit, to tax-exempt entities, including governmental entities like the School District, to reimburse the entity for a portion of the cost of qualifying capital improvements. The IRA provides a new opportunity to tax-exempt entities to reduce the cost of eligible projects while also enhancing an organization's sustainability efforts and reducing carbon footprint. For school districts, capital expenditures that may qualify include the purchase of certain electric vehicles and the installation of equipment that generates renewable energy (such as solar panels). Many of the credits and incentives are available through 2032, offering a long-term runway for potential benefits. We will continue to keep the School District informed regarding future developments.

OMB Revisions to the Uniform Guidance

In April 2024, the Office of Management and Budget (OMB) released revisions to the Uniform Guidance (UG) for federal grants and agreements. The guidance clarifies the applicability of requirements and terminology and includes some relaxation and clarification of certain requirements that required prior approval from federal regulators. Changes to certain administrative requirements are effective for grants received on or after October 1, 2024. One key change to audit requirements relates to the increase of the single audit threshold from \$750,000 to \$1 million. The Type A threshold for federal programs also increases from \$750,000 to \$1 million. This change is effective for fiscal year ends starting on or after October 1, 2024 and, therefore, would be applicable for the School District's fiscal year ending June 30, 2026.

Capitalization Thresholds Under Uniform Grants Guidance

The April 2024 Uniform Grants Guidance Revision that is described above resulted in the equipment capitalization threshold increasing from \$5,000 to \$10,000. This threshold applies to the value of equipment that at the end of the grant period may be retained, sold, or otherwise disposed of with no further responsibility to the federal agency. In addition to considering this UG threshold related to federal grants compliance, it may be a good time for the School District to reevaluate the capitalization thresholds, understanding that there are various factors to consider. Ultimately, a school district will be required to track equipment purchases below \$10,000 for grant compliance purposes if the School District's policy is set below this new federal floor.

Understanding and Managing Potential Cyber Threats

Education continues to be one of the top targets for ransomware attacks. Legislation referred to as the K-12 Cybersecurity Act of 2021 was signed into law in October 2021 in recognition of the significant risk to school districts. This legislation has led to actionable guidance for K-12 organizations to act upon in order to strengthen their cybersecurity posture. Many K-12 organizations struggle to find adequate resources in the form of human capital or budget to adequately protect their information systems and critical data or, even worse, understand the risks associated with their use. Below are a couple key considerations:

- Do you know where all of the various data resides in the school district? PII, FERPA, HIPAA, and credit card (PCI) data all have very specific security and annual attestation requirements.
- Is your organization ready for the inevitable cyberattack? Ensuring all stakeholders, not just IT, know their role in cyber incident response is imperative to an effective response.
- Are you taking advantage of grant and other funding opportunities? K-12s should ensure they are taking full advantage of available resources.

Having an external party perform an assessment on vulnerabilities may provide additional support to the IT team for initiatives it is implementing and provides peace of mind for the board that vulnerabilities have been assessed and addressed. If you are interested in discussing this further, we would be happy to continue the conversation and be a trusted advisor in your cyber journey.

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.

IT Assessment and Planning

Much of teaching and learning today is predicated on reliable, robust, and secure technology, as well as an effective IT support function. The pandemic was very disruptive, including from a technology perspective. In the span of a few months, the use of technology in teaching and learning shifted dramatically, with greater mobility, learning on demand, and an increase in 1-to-1 initiatives. Cybersecurity threats increased at the same time support requirements expanded. Even though staff and students have returned to normal operations, 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.

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.