Sinking Fund & Bond Fund

YEO & YEO

BUSINESS SUCCESS PARTNERS

PRESENTED BY

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Principal

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Sinking Funds

- Purpose: Funds school safety improvements, technology improvements, and the repair and construction of school buildings.
- System: Operates on a “pay as you go” basis, avoiding borrowing money or paying interest.
- Calculation: Millage is based on the taxable value of a home, typically about half of the assessed value.
- Levy Limits: Up to 3 mills for up to 10 years with voter approval.
- Restrictions: Cannot be used for regular maintenance, teaching supplies, textbooks, or salaries.
- Fund Management:
  - Must be kept separate from other district accounts.
  - Requires annual testing as part of audit to ensure proper use according to ballot language.
- Benefits: Allows districts to preserve state funds for instruction, programs, and salaries.

Sinking Funds

Voter Authorization: PRE-2017	Voter Authorization: POST-2016 AND PRE-AUGUST 6, 2023	Voter Authorization: POST-AUGUST 6, 2023
Up to 5 mills for up to 20 years	Up to 3 mills for up to 10 years	Up to 3 mills for up to 10 years
Purchase of real estate for sites for, and the construction or repair[1] of, school buildings NO EQUIPMENT OR FURNISHINGS	Purchase of real estate for sites for, and the construction or repair[1] of, school buildings NO EQUIPMENT OR FURNISHINGS OTHER THAN: - School Security Improvements[3] - Technology[4]	Purchase of real estate for sites for, and the construction or repair[1] of, school buildings NO EQUIPMENT OR FURNISHINGS OTHER THAN: - School Security Improvements[3] - Technology[4] - Student Transportation Vehicles[5] and parts, supplies and equipment to maintain these vehicles - Trucks, vans[6] and parts, supplies and equipment to maintain these vehicles
NO MAINTENANCE[2]	NO MAINTENANCE[2]	NO MAINTENANCE[2]
ANNUAL AUDIT[7]	ANNUAL AUDIT[7]	ANNUAL AUDIT[7]

Source: millercanfield.com

Sinking Fund – Allocable Costs

- Construction and repair of school buildings
- Purchase of real estate for school sites
- School security improvements
    - Cameras & entryway enhancements
- Technology upgrades
    - Computers & networking equipment
- Transportation
    - Buses
- Maintenance equipment
    - Trucks & vans

Sinking Fund – How It's Tested

- Reviewing financial statements
  - Examining balance sheets & revenue/expenditures
- Assessing compliance
  - Verification that expenditures align with allowable uses under Michigan law
    - Such as construction, security improvements, and technology upgrades
- Examining documentation
  - Invoices, contracts, and other pertinent records for confirmation of appropriate spending
- Internal controls
  - Evaluation of Davison Community Schools' controls to prevent mismanagement or unauthorized spending
- Audit report submission
  - Findings of any kind are submitted to the Michigan Department of Treasury for review

Sinking Fund – Audit Finding Results

- Budget adjustments
- Stricter oversight
  - Increased involvement from state regulators and more detailed reporting
- Funding restrictions
  - Limitations on how funding can be used or potential reductions
- Corrective action plans
  - Implementation of new controls or policies to address deficiencies

Bond Funds

- Purpose: Michigan school bonds are used for large capital expenditures, such as constructing new school buildings or major renovations.
- Funding Mechanism: School bonds involve borrowing money through the issuance of bonds, which must be repaid with interest over time.
- Approval Process: Issuing school bonds requires voter approval through a bond election.
- State Support: The Michigan School Bond Qualification and Loan Program provides state credit enhancement and loan mechanisms for school district bond issues, potentially lowering interest rates.
- Usage Restrictions: Bond proceeds can only be used for capital expenditures and cannot be used for maintenance, repair costs, or operating expenses.

Bond Fund – Allocable Costs

- Capital improvements
  - Construction, renovation, and expansion of school buildings
- Technology upgrades
  - New computers, smartboards, and other educational technology
- Safety enhancements
  - Security systems, fire alarms, and emergency preparedness measures
- Furniture & equipment
  - Desks, chairs, lab equipment, etc.
- Transportation infrastructure
  - Improvements to parking lots and driveways
- Energy efficiency projects
  - Solar panels and HVAC upgrades

Bond Fund – How It's Tested

- Review policies and procedures
  - Assess whether the Schools' policies and procedures are adequate to safeguard funds
- Risk assessment
  - Identification of areas where audit efforts should be expanded or reduced based on internal assessment of risk
- Expenditure testing
  - Verification that funds are spent on approved projects and not misused
- Investment confirmation
  - If invested, confirmation of existence and valuation through external sources
- Financial statement analysis
  - Ensure all income and changes in investment values are recorded properly

Bond Fund – Expenditure Testing

- Understanding the scope
  - Approved budgets, bond fund agreements, relevant laws and regulations
- Sampling transactions (Random sampling vs. Risk-based sampling)
  - Random sampling – focuses on unbiased selection
  - Risk-based sampling – focuses on high-value or unusual transactions
- Review documentation
  - Invoices and receipts to verify expense legitimacy
  - Contracts and purchase orders to ensure compliance with procurement policies
  - Approval records to confirm authorization of expenditures
- Compliance testing
  - Funds were used for capital improvements rather than operational costs
  - Expenses comply with state and federal regulations
  - Payments were made to approved vendors and contractors

Bond Fund – Expenditure Testing (Continued)

- Tracing funds
  - Matching payments to corresponding invoices
  - Confirming funds were not diverted for unauthorized purposes
  - Scanning for duplicate or fraudulent transactions
- Irregularity identification
  - Interviews with financial personnel
  - Additional documentation requests
  - Potential violations and corrective action plans
- Reporting findings
  - Summary of tested expenditures
  - Issues or non-compliance identification
  - Recommendations for improvements

Audit Results and Reporting

- Results of bond audits are submitted to Treasury and MDE annually while a bond is actively spending.
- Audits are performed annually until substantially all bond proceeds have been spent.
- Upon completion a final bond audit is necessary.
- Sinking fund testing related to compliance is reported in the Annual Audit of the District.

Audit Results and Reporting

Issuance	2020-Series I	2022-Series II	Sinking Fund (2015)
2020			Completed
2021	Submitted		Completed
2022	Submitted		Completed
2023	Submitted	Submitted	Completed
2024	Submitted	Submitted	Completed
Status	Final Treasury Certification completed October 14, 2024	Spend down	N/A

Questions?

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