Lapeer Community Schools of Lapeer County

Report to the Board of Education

June 30, 2019

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To the Board of Education
Lapeer Community Schools of Lapeer County

We have recently completed our audit of the basic financial statements of Lapeer Community Schools of Lapeer County (the "School District") as of and for the year ended June 30, 2019. In addition to our audit report, we are providing the following results of the audit, other recommendations, and informational items that impact the School District:

We are grateful for the opportunity to be of service to Lapeer Community Schools of Lapeer County. We would also like to extend our thanks to Mr. Mark Rajter, Mrs. Danielle Corbeil, 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

September 24, 2019

Results of the Audit

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September 24, 2019

To the Board of Education
Lapeer Community Schools of Lapeer County

We have audited the financial statements of Lapeer Community Schools of Lapeer County (the "School District") as of and for the year ended June 30, 2019 and have issued our report thereon dated September 24, 2019. 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 April 2, 2019, 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, 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 24, 2019 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 10, 2019.

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 2019.

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, 2019 were $88,944,606 and $23,271,243 for the pension and OPEB plans, respectively, based on data received from the Office of Retirement Services. We evaluated the key factors and assumptions used to develop the accounting estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

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

Difficulties Encountered in Performing the Audit

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

Disagreements with Management

For the purpose of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. The School District has capital lease obligations related to the copier leases and has concluded to treat these leases as operating leases. The government-wide net impact of the difference in accounting is insignificant (government-wide statements' assets and liabilities are understated in equal amounts). Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

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 September 24, 2019.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated September 24, 2019.

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

Eric Formberg

Eric V. Formberg

Other Recommendations

Change in Business Office Leadership

We would like to compliment the School District on the diligence and process surrounding the recruitment of a new director of finance in late 2018. The addition of the new director of finance has had a positive impact on the operations of the finance office and the ability of the team to close the books and records at year end. This function and position is extremely important for the fiscal management of the School District.

Strategic Vision

In strategically planning for the future, long-term needs will need to be assessed, including the desired education model for the next 5-10 years. The School District will need to consider how best to align the School District with the rapidly changing face of education, including online/cyber schools, collaborative education, and connecting with other providers. The capital strategy should focus on the reconfiguration of the School District, the bond proposal, and the related communication with the community. It is important that the School District has a long-term outlook and a healthy fund balance for potential repairs that are not payable from bond proceeds.

Administrative Technology System Conversion

During year two of the technology system conversion, the School District began to refine the technology system and worked on getting the systems running as effectively and efficiently as possible. As this process continues, consider ways to implement technology workflows and electronic approvals to gain efficiencies and effectiveness in day-to-day activities, as well as enhancing internal controls in the business office. Also consider integrations of additional modules available (such as capital assets) to increase leveraging of the new system.

Informational Items

State Aid Funding

State Aid and the Foundation Allowance

With a new governor comes new funding priorities. The governor has laid out her executive recommendations, which include a comprehensive plan to fund roads and school funding improvements. These initiatives created significant discussion and encouraged the Legislature to develop its own plans and strategies. This meant that Michigan schools began the July 1, 2019 budget year without knowing what their funding levels would be for the 2019-2020 school year. It also meant a lack of clarity surrounding which initiatives would survive the legislative process and whether any new initiatives would be funded, which limited the ability to plan and staff for these initiatives accordingly. Districts were required to use the best information at hand to estimate what funding levels might be in place in order to develop annual budgets. As a result, districts will be required to revisit budget assumptions once the State of Michigan finalizes its funding plan for public schools. Factors continuing to impact school funding include the level of increase for the foundation allowance; additional funding boosts for districts at the minimum foundation; the student count blending formula; resources dedicated to assisting with funding the School District's retirement/postretirement healthcare obligation (MPSERS), including implications from changes in plan assumptions and costs incurred from changes to retirement system programs; and what, if any, supplemental funding is provided based on the School Finance Collaborative recommendations.

<u>2018-2019 Foundation</u>: For the 2018-2019 fiscal year, the base foundation increased by $120, from $8,289 to $8,409. The State continued its use of the "2X formula," providing districts at the minimum foundation with an increase of $240 per pupil to $7,871. The School District's foundation allowance was increased to $7,871. In 2011, the foundation allowance for school districts was cut $470 per pupil as a budget balancing action. For comparison purposes, districts at the minimum foundation allowance have now finally recovered those cuts, and districts near the base foundation are close to full restoration. In the 2018-2019 State Aid Act, a minimum funding provision continued (Section 20f). This section recognizes that the funding shift toward paying the growing MPSERS expense could significantly harm some districts. This categorical guarantees at least a $25 per pupil increase after taking into account the funding changes. In an attempt to consider the fact that educating high school students is more costly than those of lower grades, an additional $25 per high school pupil allocation was created in 2017-2018 and continued for 2018-2019.

<u>2019-2020 Foundation</u>: For the 2019-2020 fiscal year, the base foundation, now called the target foundation, increases by $120, from $8,409 to $8,529. Using this formula, the minimum foundation allowance increases by $240 per pupil to $8,111. Based on these changes, the School District will receive a $240 increase in its foundation allowance, representing an increase of 3 percent. While the State Aid Act amendments are in place, it is expected more will come due to the governor's line item vetos. The School District will need to review its budget assumptions and educational plan to determine which, if any, plans will need to be amended. Clearly, the State's delay to complete a funding plan has created significant financial pressure for the School District in order to ensure fiscal stability. The Board of Education and administration will need to work together to assess operational and fiscal changes as additional changes to school funding evolve.

<u>Pupil Membership Blend for 2018-2019 and 2019-2020</u>: The method for counting students for 2018-2019 used calendar year counts with a weighting of 90 percent of the fall count and 10 percent of the February count. The 2018 calendar year counts were used to for the 2018-2019 fiscal year funding. This methodology will continue for 2019-2020.

At-Risk Funding: For 2018-2019, the funding level was unchanged, but several changes were made to the performance requirements for At-Risk funds, including use of a new funding formula not effective until the 2019-2020 school year. Key focus items include third grade English language learners' reading improvement, eighth grade math proficiency, and one year's growth on a benchmark test. Implications of these changes should be carefully evaluated, as they could have a significant effect on future At-Risk programming.

MPSERS Cost Support: Retirement system contributions are a significant part of the School District's labor costs. During 2018-2019, the contribution rate the School District is required to pay continued to rise, though the growth rate has slowed. In addition, as a result of PA 92, the program offerings have changed and increased in complexity. The School District has no ability to influence the rate and no choice regarding its participation in the program. To aid the School District in meeting its obligation, the 2018-2019 State Aid Act continued to include several funding sources to help pay for some of the increased cost. Each categorical aid section is formula driven using the School District's MPSERS payroll participation data, and each is designed to support a specific cost factor in the retirement contribution. Funding is provided in three separate sections of the State Aid Act, Sections 147a, 147c, and 147e. The School District received a total of $349,589 in 147a1, $276,401 in 147a2, $3,238,079 in 147c1, and $35,782 of 147e categorical aid to help offset the impact of its retirement costs. Both governor and legislative proposals included these categoricals for 2019-2020. In general terms, this means that the total cost of the retirement system contributions in 2018-2019, representing approximately 39 percent of covered payroll, is recognized as an expenditure in the School District's financial statements along with related revenue that was previously considered state support to the system. The net effect is that the School District is responsible for approximately a 27 percent contribution to the retirement system. The School District budgeted for additional state revenue and additional retirement expenditures in order to accommodate this funding mechanism, but may encounter some budget variances due to the fact that the state revenue provided is based on prior year school district payroll information, and some amounts were adjusted with the August 2019 state aid payment.

Many factors influence the retirement rate. Two significant factors include rate of return and employee benefit elections. The assumed rate of return within the retirement plan decreased from 7.5 percent to approximately 7.05 percent. When this assumption is reduced, it has the net effect of increasing the value of the retirement obligation for the plan. This then increases the required contributions to fund the plan. For staff hired on or after February 1, 2018, the default employee election is the defined contribution (DC) plan; however, an employee can elect the hybrid plan within a specified time frame. District contributions and state support are also modified for employees electing the new DC plan. This benefit election changes the School District's cost of the benefit for employees new to the retirement system beginning in February 2018. To offset some of the additional cost, funding is provided under Sections 147a2 and 147e.

Other State Aid Act Changes Impacting 2018-2019

Overall, 2018-2019 State Aid Act amendments did not include significant new program initiatives. Several changes of note impacting the School District's 2018-2019 revenue include the following:

Partnership Model: Section 21h provided funding to assist districts assigned by the Michigan Department of Education (MDE) to participate in a partnership to improve student achievement, including funds for professional development, increased instructional time, mentors, and other costs impacting student achievement. The requirements were updated for 2018-2019, allowing the state superintendent to waive burdensome administrative rules for partnership districts and to require districts to include the crafting of goals that put students on track to meet or exceed grade level proficiency. The Partnership Model appears to be the primary approach to assist underperforming districts.

Student Assessment Changes: The grades when the summative science test is taken were changed from fourth and seventh grades to fifth and eighth grades. New state funding for a kindergarten entry observation tool was provided that also added requirements for the summative assessments for math and ELA to be aligned to the PSAT. In addition, conditioned reimbursement was set for benchmark assessments on districts choosing one benchmark and using it for at least three years. These provisions were discussed in Sections 102d, 104, and 104c of the 2018/2019 State Aid Act amendments.

Support from the State's General Fund: Since the adoption of Proposal A, the State's General Fund has provided support to the School Aid Fund. For the last several years, the level of General Fund support has continued to fall. For 2018-2019, the trend continued with a $60 million reduction in support. On a statewide basis, the reduction in support equates to approximately $40 per student.

Repayments to the State: If a district is overpaid by the State of Michigan, it is required to repay the State. If the repayment creates a hardship, a request for extending payments can be made. The amount of time the MDE may grant for a district to repay any overpayments is nine years. Beginning in 2018-2019, language was removed allowing for the MDE to waive all or a portion of a repayment under certain conditions.

Transparency Reporting Requirements: These content posting requirements continue and include, but are not limited to, deficit elimination plans, enhanced deficit elimination plans, district credit card information, budget information, procurement and reimbursement policies, and out-of-state travel information. Transparency reports must be updated on the district's website within 15 days of the change.

Early Warning Legislation

Early Warning requirements were put in place in 2015. The requirements are designed to identify districts that may be showing signs of fiscal distress, create a system of reporting this situation sooner than in the past, and require those districts deemed to be in distress to remit more frequent financial data to the Treasury and the MDE.

One key item was the identification of those districts and charter schools whose total General Fund fund balance was less than 5 percent of General Fund revenue in each of the last two years. The definition of revenue for the purpose of this test focuses on General Fund unrestricted revenue. Districts that meet this criteria are required to remit the budgetary assumption and expenditure per pupil information to CEPI as the first step in the process.

Once remitted, the state treasurer, through the Office of School Review and Fiscal Accountability (OSRFA), may conclude that the potential for fiscal stress may exist. At that time, the district may conclude to contract with the ISD (or the authorizing body for charter schools) to review the district's financial records and offer recommendations to avoid a deficit. The review would need to be concluded within 90 days of entering into the contract and requires quarterly reporting to the State on the status of implementation of the recommendations.

In its oversight role, OSRFA uses a fiscal projection model to historical Financial Information Database (FID) data. The projection model incorporates four key financial indicators, which are enrollment, revenue, expenditures, and fund balance. School districts are sent a communication to determine if a corrective action plan had been implemented or if there was an explanation for a decrease in General Fund fund balance. OSRFA reviews each school district's response and financial data to determine whether potential fiscal stress existed in the school district. If fiscal stress is not declared, then it follows up on the district's corrective actions. If fiscal stress is declared, the district and others are notified, and the district may contract with the ISD for an administrative review. As an option under this process, the district can enter into a partnership agreement. This method is designed to allow the district to work together with another organization, generally the ISD, to craft and manage a plan. This process is preferred rather than using an emergency manager (EM), as the State of Michigan no longer has any districts currently operating under an EM.

For the years ended June 30, 2019 and 2018, the General Fund fund balance was 11.5 percent and 9.5 percent, respectively, of unrestricted General Fund revenue. The School District should continue to monitor this figure closely so any required reporting can be done in accordance with the required timelines.

Fund Balance

During the 2018-2019 fiscal year, the School District faced continued financial challenges due to declining enrollment and inflationary cost pressures. The outlook for 2019-2020 and beyond suggests that future funding increases for operations will not be significant. This continues to put substantial pressure on districts' operating budgets and fund equity.

During the 2018-2019 school year, the School District's General Fund revenue exceeded expenditures by $927,180. This resulted in increasing the General Fund equity to approximately $4,600,564 at June 30, 2019. We feel that it is important for the School District to maintain its fund equity at an appropriate level. The benefit to the School District of maintaining appropriate fund equity is the ability to meet unforeseen circumstances, like the implementation of State Aid proration, without significantly affecting the level of programs for the year. This gives the School District time to work out financial changes without the need for sudden or drastic reactions to adverse circumstances. The need for fund equity will continue to be important due to the funding caps imposed by school finance reform; increasing retirement and healthcare costs; other cost pressures the School District is facing; cash flow needs due to the fact that approximately 18 percent of the School District's state aid is received after the school year has ended; and concerns over the allocation of resources within the School Aid Fund in the future and the fact that the State is increasing its monitoring of each school district's financial health, including implications from the Early Warning requirements.

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, 2018 is approximately 13.96 percent of expenditures (excluding transfers out). Fund equity of 5.5 percent of expenditures would approximately equal the School District's average accounts payable balance and payroll for a three-week period. The School District's fund equity percentage is 9.3 percent and equals approximately five weeks of operation.

Clearly, the School District will continue to face difficult budget challenges in 2019-2020. Given the continued uncertainties with state funding and lack of significant growth in per pupil school aid funding, budget planning, and fund balance management will continue to be essential elements for district success.

Single Audit Update - Changes to Auditor Required Testing and Data Collection Forms

The 2019 Compliance Supplement has been released. This supplement is issued as one stand-alone document and includes significant and extensive changes this year compared to recent years. The 2019 Compliance Supplement will be effective for audits of fiscal years beginning after June 30, 2018. Appendix V of the 2019 Compliance Supplement identifies all changes at a high level and identifies specific programmatic changes by CFDA number. The most significant change implemented is the six-requirement mandate, in which the Office of Management and Budget (OMB) requires agencies to limit compliance requirements subject to the compliance audit to six per program or cluster included in the 2019 Compliance Supplement. For “counting” purposes, the requirements relating to (a) activities allowed and unallowed and (b) allowable costs and cost principles are counted as one requirement. It is important to note that auditees are still required to comply with all applicable grant regulations. While auditees may experience some changes in preparing for the audit, facts and circumstances of each grant will dictate the required focus of the audit.

The new 2019 data collection form (DCF) has been issued and is effective for period ending dates in 2019 through 2021. This form is very important, as it is the key document reporting federal program grants, auditor opinions, grants tested, and now detailed footnotes and findings to the federal government. A summary of changes to the DCF this year is as follows:

- The collections system now allows all respondents to enter the federal awards and notes to the schedule of expenditures of federal awards (SEFA) prior to the end of their fiscal period and the audit work being conducted. Once this information is entered, users may generate a customizable SEFA and notes to the SEFA from the system to include in their reporting package.

- Part II, Item 2 will be used to provide the notes to the SEFA, including a description of the significant accounting policies used in preparing the SEFA; whether the auditee elected to use the *de minimis* cost rate; and any additional notes included in the reporting package, excluding charts, tables, or footnotes.

- Part III, Item 5 will be used to collect the full, detailed text of any audit findings exactly as it appears in the schedule of findings and questioned costs (2 CFR 200.516(b)), excluding charts, tables, or footnotes. This information is now being collected at the request of federal agencies for audit finding resolution purposes.

- Part IV will be used to collect the full, detailed text of the corrective action plan exactly as it appears in the auditee’s corrective action plan (CAP) (2 CFR 200.511(c)), excluding charts, tables, or footnotes. This information is now being collected at the request of federal agencies for audit finding resolution purposes.

GASB Statement No. 84 - Fiduciary Activities

GASB Statement No. 84, *Fiduciary Activities*, is effective as of July 1, 2019. The statement establishes criteria for identifying fiduciary activities of all state and local governments. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. The statement was issued because it was determined by the GASB that there was divergence in practice between governments in what was being reported in a fiduciary fund. This statement was designed to provide a principles-based approach that governments could apply against their situation to determine if certain activity should be reported in a fiduciary fund. The statement also establishes and defines four types of fiduciary funds: pension trust funds, investment trust funds, private purpose trust funds, and custodial funds. The School District will have to apply the new principles-based rules from this statement to determine if more or less reporting will be required related to fiduciary activities that may exist upon implementation of this standard, including the potential that certain activities could be reported as a new special revenue fund.

This statement is significant for districts, as most districts have some form of fiduciary-type activities. The Michigan Department of Education (MDE) and, specifically, the 1022 subcommittee developed additional implementation guidance released in March in order to assist in assuring consistent application amongst districts. The additional guidance focuses primarily on custodial funds, private purpose trust funds, and the newly created special revenue governmental fund: Fund 29. The standard has created a number of legal and operational questions surrounding allowable and unallowable activities if accounted within a special revenue fund, accounting for wage-related activities if funds are used to pay employees from the accounts, and revising board policies. While it is not expected that additional guidance relating to these matters will be provided, consultation with district legal counsel is encouraged. This new governmental accounting standard is effective as of July 1, 2019, and, therefore, the School District is required to work through implementing the various process and reporting changes prior to June 30, 2020.

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

Under the current Governmental Accounting Standards Board (GASB) standards, school districts have been reporting using the current framework for approximately 18 years. While the current financial statement presentation has worked, the GASB is looking to improve its effectiveness for all governments.

In the fall of 2018, the GASB issued certain Preliminary Views (or PV), which were titled “Financial Reporting Model Improvements” and “Recognition of Elements of Financial Statements.” PVs are issued as part of the initial steps that the GASB takes before issuing a new financial reporting standard or modification to an existing standard.

These preliminary views would 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 PVs 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 PV (which are significantly different compared to the current model) include the following:

- Requiring additional information in the management’s discussion and analysis (MD&A)

- Requiring a statement of cash flows for governmental-type funds (currently only required for enterprise-type funds)
- 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
  - Alternative 1: GASB to attempt to list out all possible transactions and then attempt to provide guidance on how/when to account for them in the funds
  - Alternative 2: GASB to adopt a framework that would help to define “short term.” The School District would then apply the transaction against the framework to determine how/when to account for it in the fund-level financial statements.
  - Under either alternative, there would likely be significant changes to when certain transactions are being accounted for in the funds. 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.

When a PV is issued, there is typically a stated time period in which the GASB will accept written comments from the public for its consideration. For these particular PVs, the public comment window closed on February 15, 2019. As a firm, Plante & Moran, PLLC provided a written response to the GASB regarding our initial thoughts on the proposed changes. We were also invited to testify in front of the GASB, during March 2019, regarding our written comments. Our responses considered the stakeholders of the School District, which include the Board of Education, community members, various state agencies, and the business office, in order to help ensure that any changes made to the financial reporting model will provide benefit to the stakeholders, while balancing the consideration of resources that could be required for any future adoption should a final standard be issued. We will monitor any progression very closely, and, if a standard is ultimately issued, we will work with your business office to ensure smooth and efficient adoption.

GASB Statement No. 87 - Leases

GASB Statement No. 87, *Leases*, is effective for the first time in the School District's June 30, 2021 financial statements. The statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows or outflows of resources based on payment provisions of the lease. The statement was issued to improve accounting and financial reporting for leases by governments. The statement establishes a single model for lease accounting for both lessees and lessors based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset on the lessee's government-wide financial statements, and a lessor is required to recognize a lease receivable and a deferred inflow of resources on the lessor's government-wide financial statements. Furthermore, there are additional financial statement disclosures required for the lessee and lessor as a result of the standard. The School District will have to identify and analyze all significant lease contracts to determine the lease asset and lease liability or deferred inflow or outflow of resources that will be required to be recognized upon implementation of the standard. This review should include all existing lease contracts and contracts that may have embedded lease arrangements that were not previously considered.

Lessee Accounting Under GASB 87:

A lessee should recognize a lease liability and a lease asset at the commencement of the lease term, unless the maximum lease term per the lease contract is 12 months or less or it transfers ownership of the underlying asset. The lease liability is measured at the present value of lease payments expected to be made during the lease term (less any lease incentives). The right-to-use asset is measured at the amount of initial measurement of the lease liability, plus any payments made to the lessor at or before commencement of the lease term and certain direct costs incurred to place the leased asset in service. The lessee should reduce the lease liability as payments are made and recognize an outflow of resources (i.e., expense) for interest on the liability. The lease asset should be amortized in a systematic and rational manner over the shorter of the lease term or the useful life of the underlying asset.

Enrollment Projections

Districts rely heavily on student enrollment for funding, future academic offerings, and logistical decisions. Detailed projections allow your school board to adequately plan for expansion, contraction, renovation, construction, and academic opportunities, maneuvering them into the best position to fulfill the district's mission. Plante Moran Cresa, an affiliate of Plante & Moran, PLLC, is one of the authorized service providers recognized by the Michigan Department of Treasury to provide enrollment projections. Their pupil enrollment projection model has proven to be over 99 percent accurate in helping districts predict enrollment for years into the future. The projections can be conducted for the entire district or focused solely on specific buildings or areas.

Real Estate Disposition and Development/Redevelopment

The way the School District utilizes its facilities can change for a multitude of reasons. Declining enrollment, obsolete or inefficient space, and geographical changes leave board members and administrators with difficult decisions related to the proper utilization of district facilities. Whether the choice is to sell, lease to a third party, or prepare the buildings and sites for redevelopment, our affiliate, Plante Moran Cresa, is able to guide you toward an informed decision and plan for situations and outcomes that are unique to the disposition and development process of school property. A process such as this can help you make the best decision regarding how and when to monetize your assets in order to lower operational costs and maximize your return on investment.