Lapeer Community Schools of Lapeer County

Report to the Board of Education

June 30, 2018

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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, 2018. 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, Mr. Matt Miller, 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 21, 2018

Results of the Audit

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September 21, 2018

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, 2018 and have issued our report thereon dated September 21, 2018. 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 March 28, 2018, 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 21, 2018 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 March 28, 2018.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

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

As described in Note 2, the School District adopted the provisions of Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Accordingly, the accounting change has been retrospectively applied to July 1, 2017, as required by the standard.

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

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

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

The most sensitive estimates affecting the financial statements were the School District's share of the MPSERS net liabilities for the pension and other postemployment benefit (OPEB) plans recorded on the government-wide statements related to GASB Statements No. 68 and 75, respectively. The School District's estimates as of June 30, 2018 were $77,567,596 and $26,471,730 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 lease as operating leases. The government-wide and General Fund net impact of the difference in accounting is insignificant (government-wide statements' assets and liabilities are understated in equal amounts, and the General Fund proceeds and capital outlay 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 21, 2018.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated September 21, 2018.

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 V. Formberg

Other Recommendations

Financial Stability and Sustainability within the School District

Given the lack of significant growth in the School District's state funding for operations and the decline in student population over the last several years, the proactivity within the School District to provide financial and operational stability is commendable. Even with a loss of 179 students during the 2017-2018 school year, the School District's General Fund revenue exceeded expenditures by approximately $215,000. This resulted in increasing the General Fund equity to approximately $3,673,000 at June 30, 2018. Fund balance goals are often stated in terms of a percentage of total expenditures (excluding transfers out). As a point of reference, the statewide average for school districts at June 30, 2017 is approximately 12.79 percent of expenditures (excluding transfers out). Fund equity of 5.5 percent of expenditures would approximately equal the School District's average accounts payable and payroll for a three-week period, while 11 percent would approximately equal six weeks. The School District's fund equity percentage is 7.5 percent and equals approximately four weeks of operation. The fund equity increase demonstrates the School District is moving toward the goal of a 10 percent fund equity. Clearly, the School District must continue focus on difficult budget projections in 2018-2019 and beyond to fund recurring operating costs. Given the current focus of how state funding is appropriated, budget planning and fund balance management will continue to be essential elements for the School District's success.

Administrative Technology System Conversion

The new technology system was utilized during the year under audit. We would like to commend the School District for its time, effort, and investment in converting to the more robust system. Year two of the system conversion will be an important year to begin to refine the technology system and working on getting the systems running as effectively and efficiently as possible.

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 School District will need to have both an operating and a capital strategy. The operating strategy should focus on the upcoming board transition to ensure there is a clear organizational picture for the School District. The capital strategy should focus on the reconfiguration of the School District, the projected 2019 bond proposal, and the related communication with the community.

Informational Items

STATE AID FUNDING

State Aid and the Foundation Allowance

State of Michigan funding for public schools continued to focus on several recurring themes and some new ones for the fiscal year ended June 30, 2018: limited increases in the foundation allowance; additional funding boosts for districts at the minimum foundation; continued student count blending formula; and additional 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. A new revenue source provided an additional $25 per pupil for high school enrollment. This was in addition to the School District's foundation allowance funding.

2017-2018 Foundation: For the 2017-2018 fiscal year, the base foundation increased once again by $60, from $8,229 to $8,289. The State continued its use of the "2X formula" providing districts at the minimum foundation with an increase of $120 per pupil to $7,631. The School District's foundation allowance was increased to $7,631. 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 are only now fully recovering those cuts, and districts near the base foundation are still yet to be fully restored. In the 2017-2018 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. Just as in 2015-2016 and 2016-2017, this categorical guarantees at least a $25 per pupil increase after giving account to the funding changes. The School District's net increase exceeded the $25 minimum identified in 2015-2016, and no additional funding was provided under this section. This provision continues for 2018-2019.

2018-2019 Foundation: For the 2018-2019 fiscal year, the base foundation increases by $120, from $8,289 to $8,409. Additionally, using the "2X formula," the minimum foundation allowance increases by $240 per pupil to $7,871. Based on these changes, the School District will receive a $240 increase in its foundation allowance, representing an increase of 3.1 percent. 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 continues for 2018-2019. This Section 22n funding is not rolled into the foundation calculation. Cyber schools and shared-time programs received significant attention during budget development, but in the end funding for these programs was not changed for 2018-2019.

Pupil Membership Blend for 2017-2018 and 2018-2019: The method for counting students was the same for 2017-2018 and for 2018-2019. The funding formula uses calendar year counts with a weighting of 90 percent of the fall count and 10 percent of the February count. The 2017 calendar year counts were used to for the 2017-2018 fiscal year funding, and 2018 calendar year counts are used for the 2018-2019 fiscal year funding. The shared-time program enrollment count cap of .75 for students enrolled in a shared-time program was retained. As in 2017-2018, the School District cannot generate more than a .75 FTE for a student participating in a shared-time program.

At Risk Funding: For 2018-2019, the funding level is 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 district At Risk programming.

MPSERS Cost Support: Retirement system contributions are a significant part of the School District's labor costs. During 2017-2018, 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 2017-2018 State Aid Act continued to include two funding sources and added three more 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 $354,381 in 147a1, $156,027 in 147a2, $3,061,018 in 1471c1, $606,116 in 147c2, and $4,504 of 147e categorical aid to help offset the impact of its retirement costs. Each of these sources continues for 2018-2019 except for 147c2, which was designed as a one-time payment to offset a one-time retirement cost. In general terms, this means that the total cost of the retirement system contributions in 2017-2018, representing approximately 37 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 26 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 2018 state aid payment.

The changes referenced above are the result of many factors. A discussion of the key changes impacting retirement contributions and retirement funding follows. The first is the fact that the assumed rate of return within the retirement plan decreased to 7.5 percent from 8 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. Second, for staff hired on or after February 1, 2018, the default employee election will be into a 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 created a change in the School District's cost of the benefit for employees new to the retirement system beginning in February 2018. Additional funding is provided under a new State Aid Act, Section 147e, to help support the shift to the new design.

Other State Aid Act Changes Impacting 2018-2019

Overall, 2018-2019 State Aid Act amendments did not include significant new program initiatives. This is a key reason why the per pupil foundation allowance funding was double what was provided in 2017-2018. Several changes of note that could impact the School District include the following:

Partnership Model: Section 21h continues funding to assist districts assigned by the 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. In addition, the 2018-2019 amendments included new requirements for partnership districts to meet to receive the discretionary portion of their foundation allowance. The Partnership Model appears to be the primary approach to assist underperforming districts.

Assessment Changes: The grades were changed for the summative science test to be taken from fourth and seventh grades to fifth and eighth grades, and the Michigan Department of Education is required to provide guidance to districts on optionally adopting and implementing department-approved benchmark assessments and to recommend that districts commit to using the same benchmark assessment for no less than three years before changing to another test. Funding for a kindergarten entry observation tool was provided that added requirements for the summative assessments for math and ELA to be aligned to the PSAT and conditioned reimbursement for benchmark assessments on districts choosing one benchmark and using it for at least three years. These provisions are discussed in Sections 102d, 104, and 104c of the State Aid Act amendments and likely require planning for the School District to effectively implement them.

Career and Technical Education (CTE): A total of $5.0 million in new funding was added to incentivize districts to enroll students in CTE programs.

Adult Education: Funding for adult education was increased modestly with no significant change in program operations.

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 continues 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.

Enrollment after Fall Count Day: For 2018-2019, the ability to prorate student count for pupils added after the count day continues.

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.

State Aid Planning Considerations for 2018-2019 and Beyond

Michigan's economy is growing steadily, but, based on Revenue Estimating Conference predictions, there continue to be financial challenges ahead for the State. In addition, come 2019, a new administration will be in place and likely new educational priorities will follow. School Aid Fund revenue continues to grow at a modest pace, but the General Fund projections are at a slower pace with significant pressure on the state budget to fund continuing projects.

For 2018-2019, the funding increases were double those of the previous year. Only one significant initiative, the Marshall Plan, was put in place, and the Revenue Estimating Conference concluded there was sufficient growth to support the increase. These increases were the largest in well over 10 years. In planning for the future, districts should use care in estimating the future growth rates in per pupil funding. That is, it is unclear if the School Aid Fund will be able to provide similar increases in 2019-2020 and beyond. As the legislature and a new governor continue to modify tax policy, determine new educational initiatives, plan for state General Fund resource needs, assess retirement system performance and benefits, and revisit School Aid Fund resource allocations, the growth and availability of School Aid Fund resources to fund K-12 regular education programs is likely to be at or below the rate of inflation.

Clearly, the key issue continuing to face the future of school funding is the need to cover the cost of the retirement system. Public Act 92 and other modifications to the retirement system have been projected to create significant increased costs and modify how the retirement system is funded. While it appears the legislature has provided resources through the School Aid Fund to cover significant elements of the cost increase, this means those resources are not available to fund other K-12 operations. The need to fund this obligation will continue to impact the School District's ability to receive additional resources to fund general education initiatives, and monitoring legislative action in this area will be important in predicting future resource available for the School District.

Careful planning continues to be key for the School District to create a cost structure that is sustainable. The use of budget modeling is essential, especially as the School District looks to determine actual state funding available to fund regular education operations, as well as funding for specific initiatives. During the budget planning process, it is important to segregate resources required to fund specific activities, such as federal funding, special education, or At Risk, when assessing the resources available to fund continuing operations. We recommend the School District fully analyze the projected revenue assumptions to estimate resources available to fund operations when entering into multi-year expenditure agreements.

MPSERS Reform and Future Contribution Rates

There is a significant change on the horizon related to how school districts will make contributions to the MPSERS plans. Currently, MSPERS contributions are remitted to the Office of Retirement Services (ORS) after each pay period based on the payroll of participants in the plan multiplied by the applicable stated contribution rates, which are published by the ORS. Effective for the state fiscal year ending September 30, 2020, the calculation for MPSERS contributions will significantly change due to the recent passage of Public Act 181 in June 2018. Commencing October 1, 2019, the district's MSPERS contributions will no longer be tied to current payroll like they are today. Rather, contributions will be remitted to the plan following a formula that will start with a "base year" calculation of the district's payroll-related and purchased services expenditures. Each year after that base year, any increase in both payroll and purchased services will have a direct correlation to an increase in the base of the calculation for the amount of required MPSERS contributions. In short, the new law will include both payroll and purchased service expenditures when calculating a portion of the required contributions. One of the primary reasons for this change is that in general across the state, payroll is shrinking. The State of Michigan has a requirement to pay down the UAAL by a set date. At the current pace, given the contraction of payroll expenditures at most districts, it was anticipated that the UAAL was not on pace to be paid off by the set date. Essentially, the calculation of the UAAL contribution will compute a change in the payroll and purchase service base over time and apply that rate of change to an initial payroll level. The specifics of how the base will be determined and the initial period for payroll data are yet to be clarified. This modification in how districts contribute to the plan is one of the primary reasons for the shifts in how contributions are to be made.

An important goal for the timing of the change is to allow districts to be able to use the calculation model before the budget year begins so the actual expense can be determined and built into the district's budget. This change creates many questions that cannot yet be answered today. One of the primary issues at hand is whether or not the MPSERS contributions can continue to be charged to federal programs, now that the contributions will not be tied to current payroll. The School District should continue to keep an eye out for guidance on this important question as it becomes available; this is likely a regulatory matter on which we anticipate the department will need to publish guidance for the districts. The School District should also keep in mind that this will have a significant impact on how the School District prepares its budget in the spring of 2019 for the 2019/2020 fiscal year.

Transparency Reporting

Transparency reporting has been in place for several years. Public Act 5 of 2015 requires the following transparency reporting on a district's website:

- Budgets and budget amendments must be posted within 15 days of their adoption (formerly 30 days).
- The district's written policy governing procurement of supplies, materials, and equipment
- The district's written policy establishing specific categories of reimbursable expenses
- The district's accounts payable check register for the most recent fiscal year or a statement of the total amount of expenses incurred by board members or district employees that was reimbursed by the district for the most recent fiscal year
- Any deficit elimination or enhanced deficit elimination plan the district was required to submit

- Identification of all credit cards maintained by the district as district credit cards, the identity of all individuals authorized to use each card, the credit limit on each credit card, and the dollar limit, if any, for each individual's authorized use of the credit card

In addition, the district is also required to provide the following:

- Pie charts for personnel expenditures and district expenditures
- Links to collective bargaining agreements, healthcare plans, bids, and financial statement audit report
- Compensation and benefits for the superintendent and employees with salaries over $100,000
- Amounts for dues, lobbying, and out-of-state travel

Noncompliance with the requirements could result in withholding of 10 percent of state aid otherwise owned to the district. The Michigan Department of Education regularly reviews district websites to determine if the requirements are met. Maintaining this information requires the district to maintain a process to post updates timely and staff resources to maintain the information.

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 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 criterion 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 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 they follow 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 to 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, 2018 and 2017, the General Fund fund balance was 9.5 percent and 8.7 percent of unrestricted General Fund revenue, respectively. The School District should continue to monitor this figure closely so any required reporting can be done in accordance with the required timelines. The initial budget for 2018-2019 is projecting a significant use of fund balance, and, while this may change with the first budget amendment, the School District will be close to the 5 percent early warning threshold and may receive a notice to provide budget assumptions and expenditure information to CEPI.

Marshall Plan for Workforce Development

Over the last year, the governor focused on a new educational priority focused on career and technical education. He included elements of the plan in his budget proposal sent to the legislature. While the legislature did not embrace the proposal as part of the State Aid Act amendments, there was sufficient funding to provide resources as a separate initiative. This resulted in a $100 million funding allocation. The fund will bolster career-oriented school programs to maintain a pipeline for students from graduation to jobs in professional trade, information technology, or other top career fields. The purpose is to train students in technical and trade skills in lieu of only promoting a traditional K-12 education path in order to help fill the talent gap in Michigan. As stated by the governor, the Marshall Plan for Talent's goal is to create, expand, and support educators and businesses that create innovative programs for high-demand, high-wage careers.

In addition to the specific educational initiatives, the multibill package requirements include: direction for the Department of Education to develop, in consultation with the Department of Talent and Economic Development, a model program of instruction in career development; promulgating rules allowing a person to use time spent engaging with local employers or technical centers to count toward renewing a teaching certificate; allowing people without a teaching certificate but with professional experience to teach in an industrial technology or career and technical education program for up to 10 years; using educational development plans for students; allowing students graduating high school through 2024 to fulfill one credit of the foreign language requirement by completing a career technical education program; removing the basic skills exam from the requirements to teach for more than a year as a noncertified teacher in a shortage area like computer science, foreign languages, math, biology, chemistry, engineering, physics, robotics, or other such courses; and allowing someone without a teaching certificate to serve as a substitute teacher if they have 60 hours of college credit or an associate's degree.

Key objectives of the Marshall Plan include the following:

- Foster business and education collaboration
- Evolve to competency-based learning
- Increase the number of individuals with stackable credentials and/or certificates for high-demand, high-wage occupations
- Increase workforce planning (supply and demand)
- Increase career awareness and exploration
- Create multiple career pathways
- Focus on education linking competencies and opportunities
- Support funding and resources for programs

As part of the Marshall Plan, there is nearly $59 million available in innovation grants. Funds will be awarded based on the level of innovation, the strength of the partnerships, and how well the application embraces the philosophies of competency-based learning for high-demand, high-wage careers.

Regional workshops occurred during the summer of 2018, and applications are scheduled to be available in the fall of 2018.

Participation in most elements of the Marshall Plan require membership in a talent consortium. For the School District, understanding the elements of the Marshall Plan, how the resources can be tapped into, and how to leverage school initiatives with the plan components could prove beneficial as part of the School District's overall educational mission. The School District has applied for grants under the Marshall Plan with a goal of leveraging its current investment in career and technical education programming.

ORS 3 Percent Healthcare Contribution

PUBLIC ACT 75 (PA75)

Effective July 1, 2010, PA75 required school districts withhold 3 percent from each employee's compensation and send it to the Michigan Office of Retirement Services (ORS) for deposit into a healthcare trust. After a lengthy court battle, in December 2017, the Michigan Supreme Court ruled PA75 unconstitutional and ordered all contributions and interest be refunded back to the employees. Total contributions statewide under PA75 approximated $550,000,000. In January 2018, ORS transferred the funds back to districts, which were then required to refund the dollars to the original contributors. This process was a significant administrative undertaking placed upon districts, and many continue efforts locating former employees who had separated from the districts years ago or families of employees who have since passed away. In addition, the refunded contributions are a return of wages withheld, and districts will be required to complete 2018 annual tax reporting related to the refunds in January 2019.

There may be more refunds and more work ahead for districts related to the PA75 contributions refund matter. A court case contesting the "very minimal" interest earnings on the PA75 contributions withheld over the period from July 2010 until September 2012, and not refunded to districts until January 2018, was concluded in July 2018. The case evaluated the total interest earnings of approximately $4,000,000 on the $550,000,000 PA75 contributions earned over a seven-year period. The funds were held by the State in a low-interest, or "safe," savings account. In its decision, the Michigan Court of Claims ruled that school employees were entitled to, and should collect, additional interest, although the court did not specify the amount. The State can appeal this ruling.

PUBLIC ACT 300 (PA300)

In 2012, the Michigan Legislature passed Public Act 300, which changed employee retirement and retiree medical alternatives. Under the retiree medical alternatives, an employee could elect to continue the 3 percent contribution. Public Act 300 was also challenged in the Michigan courts. In 2015, the Michigan Supreme Court upheld the constitutionality of the law for the 3 percent retiree healthcare contributions made by public school employees beginning with the first payroll in February 2013.

FICA Taxation - Initially, there was much uncertainty regarding the taxation and withholding requirements related to the 3 percent contribution. Law firms have provided guidance that the required contribution is not subject to federal, state, or FICA taxation and, therefore, is not subject to withholding; Plante & Moran, PLLC supports this conclusion. However, many districts withheld FICA taxes as a result of the tax treatment uncertainty. Some of these districts have filed FICA refund claims with the IRS, and some have not. Some districts continue to withhold FICA taxes pending IRS determination of the 3 percent contribution tax treatment through a private letter ruling request.

After many years of mixed messages from various IRS representatives, and flip-flops on decisions, we are now aware from working with many clients and the IRS on this issue that the IRS is taking the position that PA300 contributions are not subject to FICA. Furthermore, the IRS clarified that FICA does not apply to retiree medical contributions during the transition period from PA75 to PA300 (September 4, 2012 to the first payroll February 2013). Districts that have not requested refunds already should do so. For years 2012, 2013, and 2014 (statute closed years), districts would be eligible for refunds only if protective claims have been filed with the IRS for those years. For years 2015 through current (statute open years), districts should request FICA refunds. Please note, there are specific steps required to claim these refunds, and we recommend the School District ask for assistance, if necessary.

Prevailing Wage Repealed

On June 6, 2018, a legislative initiative with immediate effect repealed Michigan's Prevailing Wages on State Projects law. Michigan's Prevailing Wage law covers construction workers employed on state-financed or sponsored construction projects for which the State's Wage and Hour Division establishes wage and fringe benefit rates to be paid to construction workers on projects. The Michigan Department of Licensing and Regulatory Affairs (LARA) issued communications and guidance on the repeal of the State's Prevailing Wage law related to rate postings and treatment of pending contracts. The State will no longer post rates online, and LARA suggests entities consult legal counsel for interpreting requirements of ongoing contracts. Unchanged, the federal prevailing wage law under the Davis-Bacon Act of 1931 still requires contractors and subcontractors of federally funded construction project in excess of $2,000 to apply a local prevailing wage, as determined by the U.S. Department of Labor.

Micropurchase and Simplified Acquisition Threshold Increases

In June 2018, the Office of Management and Budget (OMB) issued memorandum M-18-18 providing guidance on changes to micropurchase and simplified acquisition threshold requirements. The key changes are as follows:

- Increase micropurchase threshold to $10,000 (or higher in certain limited circumstances)
- Increase simplified acquisition threshold (small purchase procedures limit) to $250,000

The changes impacting districts were created by changes to the National Defense Authorization Act (NDAA) of 2018. NDAA 2018 impacts all recipients (prime recipients, pass-through entities, and subrecipients). The memorandum clarifies that all entities can take advantage of the increases to the micropurchase threshold to $10,000 and the simplified acquisition threshold to $250,000, effective upon the issuance of the OMB memorandum (the date appearing on the memorandum is June 20, 2018). If the School District will take advantage of the increase, it should be documented in accordance with the general procurement standards of the Uniform Guidance at 2 CFR 200.318. Key adoption considerations for micropurchase and simplified acquisition threshold changes include the following:

- When the UG procurement standards were initially implemented, were specific amounts included in the policy or were references to the UG sections or amounts as adjusted referenced?
    - If specific amounts were referenced in the policy, the School District will need to update its policy to take advantage of the changes.
    - If the policy was written to allow for changes in amounts, grantee procedures will need to be updated to conform.
- If this change is inconsistent with other procurement policies within the School District, a decision must be made as to how the policy will be enacted. Remember, state law or other requirements may limit full utilization of the changes.
- Some districts may not choose to fully adopt the change, instead maintaining lower thresholds. Districts are not required to use these thresholds, but cannot exceed them.

Treasury Website Outlines School Finance

The Michigan Department of Treasury launched a new website that provides intuitive and helpful fiscal data for local education agencies and intermediate school districts across the state of Michigan. The website compiles fiscal data from academies and districts throughout the state and analyzes data based on local units of the same type. The dashboard illustrates “data snapshots” for an LEA or ISD, offering quick references for state foundation allowance per pupil, student counts, General Fund revenue and expenditures, General Fund balance, and General Fund fund balance as a percentage to revenue. Additional data analytics include General Fund revenue and expenditures per staff and per pupil. The website allows citizens, businesses, and officials to have access to useful information to measure an academy or district’s fiscal health. The MI School Financial Dashboard is provided by the Michigan Department of Treasury using data collected by the Center for Educational Performance and Information (CEPI).

Understanding and Managing Potential Threats to your Data

In today’s age of continual reports of cyberattacks, school districts need to be aware of where potential risks lie and how they are addressed and communicated to the employees and public. Even when the best controls are implemented internally, confidential student and employee information can still be at risk based on the variety of locations data is stored.

When it comes to cybersecurity, the human element is still the weakest link and most targeted, as passwords like “August2018” can be easily guessed and emails continue to trick people into clicking links and opening attachments. As information security is a district-wide issue, not just an IT department responsibility, security requires a combination of people, processes, and technology to effectively secure your student, employee and financial data. Now is the time to take a step back and assess exactly where your data is and the controls surrounding that data.

Key questions to ask include:

- Do you know where all of the various data resides in the district?
- Outside your data center network, are employees sending information to file sharing sites, saving data on their computers, taking information home on flash drives, or sharing information with third parties? For example, do employees download reports or retain spreadsheets of information on their computers to work on and analyze?

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

Michigan School Index System

Beginning with the 2016-2017 school year accountability results, the Michigan Department of Education will rate schools based on a new system, the Michigan School Index System. The new system was developed to comply with the school accountability requirements set out in the federal Every Student Succeeds Act of 2015 (ESSA). The new system contains a blend of elements from the previous accountability systems of School Rankings (top-to-bottom), Scorecards, and English Learner Accountability (Annual Measurable Achievement Objectives - AMAOs). Under the new system, schools will receive an index from 0 to 100, with 100 being the highest. Schools with an index score of below 30 will be targeted for improvement by the State. The index score will be determined based on the following six components:

- 34 percent based on student growth on state exams
- 29 percent based on the number of students proficient on state exams
- 14 percent on student quality, such as availability of art, music, library, and physical education programs
- 10 percent based on graduation rates
- 10 percent based on the proficiency of English language learners on a state exam
- 3 percent based on how many students are tested

Understanding the district’s data points using this index can be helpful as it develops and communicates its educational plans and strategies.

GASB Statement No. 75 - Reporting for OPEB Obligations

Effective for the School District’s June 30, 2018 financial statements is GASB Statement No. 75 - *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This OPEB standard requires the School District to recognize on the face of the government-wide financial statements its proportionate share of the net OPEB liability related to its participation in the MPSERS plan. While the School District has a very small share of the statewide OPEB liability (less than 1 percent), the obligation the School District recorded is significant.

The data required to record this liability has come from the retirement system using the plan's September 30, 2017 fiscal year end information. Changes in the net OPEB liability are reported as an expense at the government-wide level and in proprietary funds. The School District has recorded the deferred inflows and outflows with the plan as of the measurement date (September 30, 2017) and computed and reported the contributions expensed in the funds after the measurement date through the School District's fiscal year end.

The statement has a similar impact on the financial statements as did GASB No. 68 when it was adopted in 2015.

- The adoption of GASB 68 related to the MSPERS pension liability left many districts with a negative net position in the government-wide set of financial statements. The adoption of GASB 75 is likely to significantly increase that deficit.
- The adoption of the standard has not impacted the expenditures reported in the General Fund and has not impacted General Fund fund balance.
- Disclosures regarding the plan and data related to the plan are significantly expanded in the School District's financial statements.
- The adoption of the statement required adjustments to the beginning of the year net position.

GASB Statement No. 84 - Fiduciary Activities

This statement is effective for the first time in the School District's June 30, 2020 financial statements. 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 as 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 situations 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 principle-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 expected to be significant for districts, as most districts have some form of fiduciary-type activities that will need to be evaluated using this new statement. The Michigan Department of Education (MDE) has communicated that additional guidance will be forthcoming from MDE in order to assist in assuring consistent application amongst districts.

GASB Statement No. 87 - Leases

This statement 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 were previously 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, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. 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.

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.