

Lapeer Community Schools of Lapeer County

Report to the Board of Education

June 30, 2017

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, 2017. In addition to our audit report, we are providing the following results of the audit, other recommendations, and informational items which impact the School District:

	<u>Page</u>
Results of the Audit	1-4
Other Recommendations	5-6
Informational Items	7-17

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 & Moreau, PLLC

September 28, 2017

Results of the Audit

September 28, 2017

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, 2017 and have issued our report thereon dated September 28, 2017. 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 24, 2017, 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 28, 2017 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 6, 2017.

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 1 to the financial statements. No new significant accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2017.

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 estimate affecting the financial statements was the School District's share of the MPERS pension plan net pension liability recorded on the government-wide statements. The School District's estimate as of June 30, 2017 is \$76,130,317, based on data received from the Office of Retirement Services. We evaluated the key factors and assumptions used to develop the MPERS pension plan net pension liability in determining that it is reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users; however, there were no particularly sensitive disclosures included in the financial statements.

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.

There was one uncorrected misstatement of the financial statements which was requested to be recorded related to \$140,332 in expenses incurred from a federal reimbursement-based grant for which expenses were not submitted for reimbursement in time to meet the 60-day receipt threshold required to qualify the amounts as General Fund revenue in the year ended June 30, 2017. Management has determined that its effect is immaterial to the General Fund and 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 28, 2017.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated September 28, 2017.

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 Lapeer Community Schools of Lapeer County 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

Lapeer Community Schools of Lapeer County

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. The School District has made improvements to the cost structure in order to anticipate the projected loss in students. Even with a smaller than anticipated loss of students, there is still a budgeted loss for the 2017-2018 fiscal year for which careful planning will be needed. Maintaining a longer-term view of the School District's financial projections will assist in maintaining both stability in operations and financial sustainability.

Administrative Technology System Conversion

While the new technology system was not used during the year under audit, the benefits from converting to the new system are already observable. The new system has many more capabilities than the old, including the ability to run a variety of reports to assist in analysis and planning. The School District has invested significant time and effort to train employees on the new system and to offer support in the transition. We would like to commend the School District for these efforts and the investment in this more robust system. While a transition of this magnitude is challenging, the benefits should yield improved productivity and information for decision-making.

Sale of Land and Buildings

The School District has been pursuing options for the White Building for several years. As we understand, a potential sale of this building and associated land could occur in the 2017-2018 year.

Planning for the Future

In strategically planning for the future, long-term needs will need to be assessed, including the desired education model for next 5-10 years. In assessing the education model, the capital and facility needs required to achieve the model and to meet the needs of students and educators must also be addressed. The potential for a bond issuance to assist in funding the future capital needs could be of value as the School District defines its longer-term educational objectives.

Accounting for Reimbursement-Based Grants

During the audit, it was noted that federal grant expenditures were incurred in the 2016-2017 fiscal year, for which reimbursement was not requested or received within 60 days of year end. In order for revenue to be recognized in a given year, it must be received within 60 days of year end. Since the request for reimbursement must be submitted after the cash is used, the School District is required to time its requests accordingly. The School District correctly delayed its request for reimbursement for expenditures incurred as of June 30 but not fully paid until the end of summer. To ensure the related revenue can be recognized as of June 30, the School District must time its request to occur prior to the end of August. We encourage the School District to monitor the reimbursement process to ensure the request is submitted to the Michigan Department of Education on a timely basis to receive the funds within 60 days of year end. The School District has indicated its desire to comply with the recommendation going forward.

Informational Items

Lapeer Community Schools of Lapeer County

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 for the fiscal year ended June 30, 2017: 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 (MPERS). One change worth noting was the increase in the number of required school days to 180, up from 175 days, but without a change in the number of required hours of instruction. Many districts were already providing 180 days of instruction, and for those districts, the change did not have an impact.

2016-2017 Foundation: For the 2016-2017 fiscal year, the base foundation increased by \$60, from \$8,169 to \$8,229. The State continued its use of the "2X formula", providing districts at the minimum foundation with an increase of \$120 per pupil. The School District's foundation allowance was increased to \$7,511. For comparison purposes, the School District's foundation prior to the \$470 cut was \$7,316, meaning the current foundation is \$195 per pupil above the 2011 foundation allowance. In the 2016-2017 State Aid Act, a minimum funding provision continued (Section 20f). This section recognizes that the funding shift toward paying the growing MPERS expense could significantly harm some districts. Just as in 2015-2016, this categorical guarantees at least a \$25 per pupil increase after giving account to the funding changes. For many districts, the increase in the per pupil foundation was significantly offset by the previous elimination of Best Practice and Performance funding. Your School District's net increase exceeded the \$25 minimum and no additional funding was provided under this section. This provision continues for 2017-2018.

2017-2018 Foundation: For the 2017-2018 fiscal year, the base foundation, once again, increases by \$60, from \$8,229 to \$8,289. Additionally, using the "2X formula," the minimum foundation allowance increases by \$120 per pupil to \$7,631. Based on these changes, your School District will receive a \$120 increase in its foundation allowance, representing an increase of 1.6 percent. New for 2017-2018, an additional per pupil allocation, Section 22n, was created for students counted in high school. For those students, a new categorical providing additional funding of \$25 per pupil was created. This funding is not rolled into the foundation calculation.

Pupil Membership Blend for 2016-2017 and 2017-2018: The method for counting students was the same for 2016-2017 and for 2017-2018. The funding formula uses calendar year counts with a weighting of 90 percent of the fall count and 10 percent of the February count. 2016 calendar year counts were used for the 2016-2017 fiscal year funding and 2017 calendar year counts are used for the 2017-2018 fiscal year funding. One significant change for 2017-2018 was an enrollment count cap of .75 for students enrolled in a shared-time program. As a result, the School District cannot generate more than a .75 FTE for a student participating in a shared-time program.

At-Risk Funding: For 2017-2018, several changes were made to the funding and use of At-Risk funds. A few key items include: an increase of about \$120 million allocated to At-Risk (approximately a 30percent increase), use of funds to support third grade reading proficiency and eighth grade math proficiency, definition of eligible pupils expanded to include all pupils considered economically disadvantaged, and inclusion of Hold Harmless and Out-of-Formula districts in the At-Risk funding formula for the first time, but at 30 percent of the funding that what would otherwise be available.

Lapeer Community Schools of Lapeer County

Informational Items (Continued)

MPSERS Cost Support: Retirement system contributions are a significant part of a district's labor costs. The contribution rate the School District is required to pay continues to rise, though the growth rate has slowed. The School District has no ability to influence the rate and no choice regarding its participation in the program. To aid a district in meeting its obligation, the 2016-2017 State Aid Act continued to include funding to help pay for some of the increased cost. The categorical aid is formula driven using the School District's MPSERS payroll participation data. This funding is provided in two separate sections of the State Aid Act: Section 147a and Section 147c. The School District received a total of \$360,929 of 147a and \$3,198,461 of 147c categorical aid to help offset the impact of its retirement costs. Section 147c was designed to fund approximately 10 percent of covered payroll and does not increase district resources. Instead, the funding is recognized as revenue and then returned directly to the retirement system. In general terms, this means that the total cost of the retirement system contributions in 2016-2017, representing approximately 36 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 the state revenue provided is based on prior year school district payroll information.

This retirement funding approach will continue into 2017-2018. However, there are key changes that will impact retirement contributions. The first is the fact that the assumed rate of return within the retirement plan will be decreasing 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. A total of \$48 million has been provided in 147a to pay school districts to offset the impact of this change. 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 timeframe. District contributions and state support are also modified for employees electing the DC plan. This will create a change in the district's cost of the benefit for employees new to the retirement system 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 2017-2018

The amendments to the State Aid Act made several other changes impacting school districts. Several changes we identified that could impact the School District include the following:

Partnership Model - Section 21h provides new 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.

MEAP/M-STEP - The MDE is required to make the Kindergarten Entry Assessment (KEA) available to districts in 2017-2018.

Repayments to 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. In 2017-2018, the amount of time the MDE may grant for a district to repay any overpayments has increased from four to nine years.

Lapeer Community Schools of Lapeer County

Informational Items (Continued)

Enrollment after Fall Count Day - After the 2016-2017 School Aid amendments were passed, which eliminated the ability to prorate a pupil enrolled after the count day, a supplemental appropriation (HB 5291) was passed, reinstating the opportunity to prorate a student added after the count day. For 2017-2018, 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 School District's website within 15 days of the change.

State Aid Planning Considerations for 2018-2019 and Beyond

Michigan's economy is steady, but, based on Revenue Estimating Conference predictions, there are financial challenges ahead for the State. As we have seen by the School Aid Fund, revenue continues to grow at a slow pace, but the General Fund projections are at a slower pace. The governor's executive recommendations and legislative actions have provided some increases for general operations, but, for many districts, actual increases to support general school operations have been at or below inflation rates. In the last few years, increases have been concentrated in early childhood, At-Risk, and in funding for the increasing retirement obligation. While the final State Aid Act amendments provided additional funds for operations in 2017-2018, because of the elimination of performance funding and best practices, for many the net increase in funding was \$25/pupil from the levels in place when best practice and performance were provided. In addition, since the 2017-2018 amendments to the State Aid Act were not signed until July 2018, it is possible the revenue estimates used in the initial 2017-2018 school district budget may need to be revised. As the legislature and governor continue to modify tax policy, plan for state General Fund resource needs, modify the retirement system benefits, and revisit School Aid Fund resource allocations, the growth and availability of School Aid Fund resources to fund K-12 operations is likely to continue to be less than the rate of inflation.

Clearly, the key issue facing the future of school funding is the need to cover the cost of the retirement system. For 2017-2018, modifications to the retirement system have projected to create significant increased costs. While it appears the legislature has provided resources through the School Aid Fund to cover the cost, it means those resources are not available to fund other K-12 operations. The funding theme in the future will likely continue to be how to use School Aid Fund resources to cover the retirement obligation. Funding 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 will continue to be key for the School District to create a cost structure that is sustainable. The use of budget modeling will be essential, especially as the district looks to determine actual state funding available to fund operations. In addition, 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 available to fund operations when entering into multi-year expenditure agreements.

Lapeer Community Schools of Lapeer County

Informational Items (Continued)

School Aid Fund Dynamics

In the last six years, public education has seen more change in the substance of school funding than in the last 14 years. Proposal A, as passed, was a K-12 funding mechanism. Prior to 2011, there were a series of small changes to the funding model. Some activities, previously funded with the State's General Fund, were moved to school aid. General Fund earmarks for the School Aid Fund have been reduced since 1994. Prorations became commonplace as the School Aid Fund's ability to generate new revenue slowed. Over time, some categorical revenue was eliminated and some was created. During the downturn, federal funds were added on a temporary basis to supplement state funding shortfalls. Essentially, the changes were viewed as incremental modifications.

Beginning with the 2011-2012 amendments to the State Aid Act, we experienced a redefinition of the funding model. Districts experienced a \$470 per-pupil funding cut which actually "revalued" the foundation and created a new base. Along with the governor's education initiatives, the concepts of "best practice" and "rewarding" student performance were entered into the funding scheme, and then removed. Furthermore, the increased cost of the retirement system diverted funds that would have been available to fund operations. And most significantly, the funding for higher education was moved from the General Fund into the School Aid Fund along with a restructuring of tax policy. This comprehensive view and approach to the management and funding of education created a new definition of reality for Michigan schools. This new reality continued into the amendments to the State Aid Act for 2017-2018.

Implications from the restructure of the State's funding approach are substantial and impact how a district will be able to generate additional state funding into the future. The additional revenue identified after the May 2017 Revenue Estimating Conference created a 2X funding formula increase of \$60-\$120 per pupil, similar to the previous year. As part of the restructure, a funding floor categorical allocation was added. It provides a minimum per-pupil increase of \$25 per pupil. Once again, more funds were also set aside to provide additional contributions to the retirement system. It is clear, based on future projections from the retirement system, including the implications from the restructure of the hybrid plan and the reduction in the assumed rate of return, that the increased costs of the system will absorb significant resources from the School Aid Fund or from district operating budgets. Based on the funding priorities from this legislative session, it appears the focus will continue to be on the costs of the retirement system, and real dollar increases to fund general operations are likely to be limited.

As the School District continues to evaluate and select its operational and educational initiatives, it will be increasingly important to monitor the implications from legislative action. As the governor and legislature move forward with their education agenda and attempt to balance it with growing General Fund needs, it is likely there will be new elements producing a significant impact on the funds received by the School District from the State. The key question will continue to be "what resources will be available for the district to fund its recurring operations?"

Early Warning Legislation

"Early Warning Legislation," a 10-bill package of bills, was enacted in 2015. This legislation is designed to identify districts that may be showing signs of fiscal distress, creates a system of reporting this situation sooner than in the past, and requires those districts deemed to be in distress to remit more frequent financial data to the Treasury. The entire early warning system is under the supervision of the Treasury to monitor and assist local districts and charter schools.

Lapeer Community Schools of Lapeer County

Informational Items (Continued)

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 purposes 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. For 2017, this information was due by July 7, 2017, requiring affected districts to compute certain information only one week after their fiscal year ends.

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 Treasury 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 school district and others are notified, and the school district may contract with the ISD for an administrative review. As of January 2017, there were 15 districts labeled with potential fiscal stress.

For the years ended June 30, 2017 and 2016, the General Fund fund balance was 8.7 and 6.0 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.

Food Service Fund Bad Debt Policy Requirements

The School District should ensure that its policies include guidelines on the treatment of bad debt in the School Meals Program. Per 2 CFR §200.426, bad debts arising from uncollectible accounts are unallowable costs. Given that these costs are unallowable, any bad debts should be transferred out of the Nonprofit School Food Service Fund. As of July 1, 2017, School Food Authorities (SFA) must have a written meal charging policy as well as a policy which addresses bad debt related to the nonprofit school food service account. Policies regarding bad debt should be referenced in the meal charge policy. The meal charging policy should address unpaid meal charges of current students. The bad debt policy should address negative balances of students that are inactive and have become uncollectable.

The Michigan Department of Education has clarified its position on this topic in Administrative policies No. 6 (School Year 2016-2017) and No. 4 (School Year 2017-2018). Bad debt is defined by MDE as uncollectible meal balances for inactive students as of June 30 that have not been collected by December 31 of the same calendar year (six months). Students that are no longer enrolled in the district such as graduated seniors and students that have transferred to another district would be considered inactive students; however, the SFA can be more restrictive in defining inactive students beyond the minimum outlined in this memorandum. Any related collection costs and related legal costs arising due to the collection of inactive unpaid meal charges throughout the current school year and six-month collection period thereafter are allowable cost to the food service. Once inactive unpaid meal charges are written off as bad debt, collection or legal costs become unallowable to the food service fund.

Lapeer Community Schools of Lapeer County

Informational Items (Continued)

Once an account is determined to be bad debt, a nonfederal funding source must reimburse the School Food Service Fund for the total amount of the bad debt. The School District has discretion on how it will handle the bad debt once it is transferred out of the School Food Service Fund. Any future collections on the bad debt would belong to the Fund into which it was transferred (i.e. the General Fund). The School District should also make sure the point-of-sale system reflects any adjustments for bad debt transferred.

Additional Guidance Can Be Found in USDA Memo SP 46-2016 Unpaid Meal Charged: Local Meal Charge Policies and MDE Food Service Administrative Memos (No. 6 for SY 2016-2017 and No. 4 for SY 2017-2018)

Fund Balance

During the 2016-2017 fiscal year, the School District faced continued financial challenges due to declining enrollment and inflationary cost pressures. The outlook for 2017-2018 and beyond suggests future funding increases for operations will not be significant. This continues to put substantial pressure on school districts' operating budgets and fund equity.

During the 2016-2017 school year, the School District's General Fund revenue exceeded expenditures by approximately \$513,000. This resulted in increasing the General Fund equity to approximately \$3.5 million at June 30, 2017. 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, and cash flow needs due to the fact about 18 percent of the School District's state aid is received after the school year has ended, as well as 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, 2016 (excluding Detroit) is approximately 11.37 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 7.2 percent and equals approximately 3.7 weeks of operation.

The current fund balance policy prescribes a minimum fund balance at 10 percent of the year's expenditures in the General Fund. Clearly, the School District will continue to face difficult budget challenges in 2017-2018. 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 the School District's success.

Lapeer Community Schools of Lapeer County

Informational Items (Continued)

GASB Statement No. 75 - Postemployment Benefits Other Than Pensions (OPEB)

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 upcoming GASB addresses reporting by governments that provide postemployment benefits other than pensions (OPEB) to their employees and for governments that finance OPEB for employees of other governments. This OPEB standard will require 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. The statement is expected to have a similar impact on the statement of net position as did GASB No. 68 when it was adopted in 2015. Just like GASB No. 68, it is not expected to have an impact on the modified accrual funds (General Fund), and should not impact the School District's budget process. The statement also enhances accountability and transparency through revised note disclosures and required supplementary (or supplemental) information (RSI).

GASB Statement No. 77- Tax Abatement Disclosures

GASB Statement No. 77, *Tax Abatements*, is effective for the first time in the School District's June 30, 2017 financial statements. GASB No. 77 is unique in that there will be no accounting impact to the School District's financial statements; however, there will be a new disclosure in the notes to the financial statements. The disclosure focuses on the amount of property tax revenue that was forgone due to tax abatements that were entered into by the taxing authorities within the boundaries of the School District. The School District will have to work with the local taxing authorities in order to obtain the taxable value of the properties within district boundaries for which a tax abatement may apply and then it will be up to the district to calculate the impact on property tax revenue. The School District is also required to disclose whether any of the lost property tax revenue will be reimbursed by other governmental agencies.

IT ITEMS

Cyber Security

Public schools are not exempt from cyberattacks in which systems and critical data are compromised. School systems store personal information of staff, underage students, and students' parents in addition to other confidential data. It is important that schools protect themselves from both external and internal threats whether they are intentional or accidental threats. For example, ransomware attacks are on the rise and gain media attention with their ability to cripple an organization, including schools and universities. It may be the hacks of large, multimillion dollar companies that we see exposed on the evening news, but public schools can be an enticing target with the amount of data and limited budget to protect themselves.

Here are some questions to think about regarding cybersecurity issues:

- Do you receive a lot of junk email?
- Are you allowed to access risky or unsafe websites?
- Have you attended any security awareness trainings?
- In the event of an incident, are you familiar with who should be contacted?
- Is there a plan in place in the event of a breach and student records are lost?

Lapeer Community Schools of Lapeer County

Informational Items (Continued)

Because of the many access points within a School District's IT environment, continued assessment of cybersecurity issues is an essential part of the School District's overall data security assessment.

Electronic Cash Receipts

Managing cash collections has always been a challenge for school districts. During the year, cash is collected in multiple locations for myriad purposes. Insuring the cash is collected, receipted, deposited, and applied to the correct activity is time consuming and can yield inaccuracies. It also presents a unique fraud risk that can leave the district vulnerable to theft. More and more schools have been looking for methods to improve this process. Online payment systems provide a real opportunity for schools in this area.

Since the internet has become accessible to more people, schools have been looking to further enhance their communication distribution channel. Many districts now allow users to make payments to the district online. Using this technology, the district can increase the speed of collection, improve recordkeeping, reduce the burden at the service delivery site, improve accountability, provide user access to payment history, and utilize a single system for electronic receipts.

Online payment systems can be used for numerous functions within the district; potential uses for the system include:

- Breakfast and lunch payments
- Athletic gate receipts
- Field trip fees
- Schools store purchases
- After school program fees
- And many more

Several deployment options exist for online payment systems. These solutions can be integrated into the district's website and directly managed by the district's IT department, provided as a stand-alone solution via a third-party vendor, or provided via an integrated module as a component of the district's student information system or financial management system. Additional complexity is presented when determining the environment in which the solution is run, specifically whether it operates on the district's infrastructure or in the cloud. Regardless of the solution and deployment model, certain key factors must be given consideration:

- **Security:** Any organization handling payment card transactions has a responsibility to ensure that the solution is compliant with payment card industry (PCI) standards and that transactional data is secure. The specifics of that responsibility vary based on the solution and model with which it has been deployed. In a model where the online payment system is running in the School District's environment, the School District must ensure that not only is the system itself secure, but any elements of technical infrastructure that will handle transactional data are also appropriately secure. In a cloud-based solution, the responsibility for compliance is transitioned to the vendor providing the solution; however, the School District still has a responsibility to perform the due diligence necessary to ensure that the vendor is compliant with PCI standards.
- **Costs:** The various deployment options for online payment systems present different cost structures that must be considered. Purchasing a solution often represents a higher initial cost with lower long-term maintenance costs, while cloud solutions typically require lower initial costs and higher long-term costs.

Lapeer Community Schools of Lapeer County

Informational Items (Continued)

- **Integration:** Regardless of the solution and deployment model selected, integration into the School District’s financial management system is also a key consideration to ensure that receipts are applied to the correct activity or account.

While it is unlikely the remote location cash receipts can be eliminated, it is likely that once implemented, an online payment system can significantly reduce staff burden and accounting risks inherent in the cash collection process.

We understand the School District is actively reviewing online payment system options. We compliment the School District for its efforts thus far and believe a well-implemented strategy will yield the benefits discussed above.

Multi-line Phone Systems and Enhanced 911

For the past several years, the State of Michigan has been seeking to adopt legislation regarding the capabilities of multi-line telephone systems (MLTS) to provide location information on where calls originate from when calling 911 for emergency services. Under the new legislation, any call placed to 911 must include specific location information to emergency dispatchers, beyond the basic address information that has been provided in the past. This information is to include detail on the location of the origination of the call within the building from which it was dialed. An example follows:

	Requirement Prior to New Legislation	Requirement Under New Legislation
Originating Number	Main Phone Number (248)555-1000	Actual Originating Number or Extension (248)555-1234 or (248)555-1000 ext. 1234
Customer’s Name	Anytown School District	Anytown School District
Address	Address of Primary Switching Equipment 123 Main St.	Address of Call Origination 123 Main St. - Building B
Location	Not Required	Physical Location of Originating Phone West Wing, 2 nd Floor, Room 201
City and State	City and State of Primary Switching Equipment Anytown, MI 12345	City and State of Originating Phone Anytown, MI 12345

Lapeer Community Schools of Lapeer County

Informational Items (Continued)

This example highlights a critical challenge that many districts are facing, in particular those districts that operate aging phone systems. Many older phone systems are not capable of storing specific location information for all phones, nor are they capable of automatically sending that information to emergency dispatchers when a 911 call is placed, resulting in districts being compelled to invest in new phone systems.

The new legislation is currently planned to be enforced beginning December 31, 2019. While enforcement has already been deferred several times, this is a critical item that should be included in your budget planning to ensure that the School District is compliant.

Allowable Use of School Funds

In April 2015, a new law was passed on the allowable use of school funds. This law defines items that the School District cannot expend its funds on. It states a person shall not use district funds or other public funds for purchasing alcoholic beverages, jewelry, gifts, fees for golf, or any item the purchase or possession of which is illegal. However, this does not prohibit the use of funds for a trophy or plaque for award recognition of an employee, as long as the purchase does not exceed \$100. Violation of this law is a misdemeanor. Often, school districts are requesting clarification on the types of transactions the school district is allowed to execute. This law serves to answer some of those questions, but likely not all. The School District should continue to carefully review this law's requirements to ensure it is in compliance.

Sinking Funds

In November 2016, a long-awaited amendment to the Sinking Fund Law was approved by the governor, and took effect in March 2017. The State of Michigan Sinking Fund legislation (Sec 1212) was amended to expand what levied dollars are authorized to pay for, as well as placing new limits on the number of mills allowed and the duration those mills can be levied.

Authorized purchases under the law now include:

- 1) Acquisition or upgrading of technology (consistent with the definition of technology under 1351a bond programs)
- 2) School security improvement, which includes capital improvements, as well as mobile telephone applications to provide the capability for personnel to communicate on site and connect to 911

The tax levied cannot exceed 3 mills (was 5 mills), and the levy cannot exceed 10 years (was 20 years).

This was exciting news for districts that are planning to put sinking fund millage requests out to their community for vote. Unfortunately, the law amendment is not retroactive and the attractive amendments apply only on a prospective basis (new sinking funds approved by voters after March 2017). Districts that already have a sinking fund in place have an opportunity to potentially layer on an additional sinking fund and take advantage of the new authorized purchases. If you are considering the School District's ability to utilize a sinking fund in the future, or want to strategize how a new sinking fund may work best in conjunction with an existing one, please contact us.