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# Livonia Public Schools

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**Finance Committee Meeting**

**October 14, 2019**

## Independent Auditor's Report

To the Board of Education  
Livonia Public Schools

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Livonia Public Schools (the "School District") as of and for the year ended June 30, 2019 and the related notes to the financial statements, which collectively comprise Livonia Public Schools' basic financial statements, as listed in the table of contents.

#### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

#### ***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

#### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Livonia Public Schools as of June 30, 2019 and the respective changes in its financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

#### ***Other Matters***

#### ***Required Supplemental Information***

To the Board of Education  
Livonia Public Schools

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedules of the School District's proportionate share of the net pension and OPEB liabilities and pension and OPEB contributions, and the major fund budgetary comparison schedules be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

**Other Information**

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Livonia Public Schools' basic financial statements. The other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements.

The other supplemental information, as identified in the table of contents, is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplemental information, as identified in the table of contents, is fairly stated in all material respects in relation to the basic financial statements as a whole.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated October 7, 2019 on our consideration of Livonia Public Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Livonia Public Schools' internal control over financial reporting and compliance.

October 7, 2019

**June 30, 2019**

	General Fund	Special Education Fund	2013 Bond Series II Fund	Nonmajor Funds	Total Governmental Funds
<b>Assets</b>					
Cash and investments (Note 4)	\$ 30,021,834	\$ -	\$ 1,297,912	\$ 700,413	\$ 32,020,159
Receivables:					
Property taxes receivable	563,926	-	-	215,947	779,873
Other receivables	765,492	-	-	145,708	911,200
Due from other governments	24,592,378	-	-	112,258	24,704,636
Due from other funds (Note 7)	4,928,557	5,286,143	-	2,731,111	12,945,811
Inventory	114,134	-	-	31,065	145,199
Prepaid expenses and other assets	70,253	-	-	6,061	76,314
Restricted assets (Note 4)	-	-	12,347,113	16,292,023	28,639,136
<b>Total assets</b>	<b>\$ 61,056,574</b>	<b>\$ 5,286,143</b>	<b>\$ 13,645,025</b>	<b>\$ 20,234,586</b>	<b>\$ 100,222,328</b>
<b>Liabilities</b>					
Accounts payable	\$ 918,750	\$ 9,334	\$ 1,903,839	\$ 2,334,172	\$ 5,166,095
Due to other governmental units	3,338,669	3,569,350	7,939	-	6,915,958
Due to other funds (Note 7)	12,950,909	-	-	4,922,939	17,873,848
Accrued liabilities and other	10,719,975	751,083	-	2,315	11,473,373
Unearned revenue (Note 5)	1,616,664	-	-	-	1,616,664
<b>Total liabilities</b>	<b>29,544,967</b>	<b>4,329,767</b>	<b>1,911,778</b>	<b>7,259,426</b>	<b>43,045,938</b>
<b>Deferred Inflows of Resources - Unavailable revenue (Note 5)</b>	<b>613,048</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>613,048</b>
<b>Fund Balances</b>					
Nonspendable - Inventory and prepaid expenses	184,387	-	-	37,126	221,513
Restricted:					
Debt service	-	-	-	3,808,658	3,808,658
Capital projects	-	-	11,733,247	6,753,534	18,486,781
Food service	-	-	-	530,292	530,292
Committed - Approved purchases	1,512,860	-	-	-	1,512,860
Assigned:					
Subsequent year's budget	1,146,967	-	-	-	1,146,967
Capital projects	-	-	-	1,845,550	1,845,550
Center programs	-	956,376	-	-	956,376
Unassigned	28,054,345	-	-	-	28,054,345
<b>Total fund balances</b>	<b>30,898,559</b>	<b>956,376</b>	<b>11,733,247</b>	<b>12,975,160</b>	<b>56,563,342</b>
<b>Total liabilities, deferred inflows of resources, and fund balances</b>	<b>\$ 61,056,574</b>	<b>\$ 5,286,143</b>	<b>\$ 13,645,025</b>	<b>\$ 20,234,586</b>	<b>\$ 100,222,328</b>

# Livonia Public Schools

## Governmental Funds

### Statement of Revenue, Expenditures, and Changes in Fund Balances

**Year Ended June 30, 2019**

	General Fund	Special Education Fund	2013 Bond Series II Fund	Nonmajor Funds	Total Governmental Funds
<b>Revenue</b>					
Local sources	\$ 31,141,319	\$ -	\$ 524,656	\$ 25,101,212	\$ 56,767,187
State sources	117,545,521	5,256,750	-	1,220,708	124,022,979
Federal sources	6,485,955	-	-	1,981,472	8,467,427
Interdistrict sources	10,029,120	9,140,815	-	-	19,169,935
Total revenue	165,201,915	14,397,565	524,656	28,303,392	208,427,528
<b>Expenditures</b>					
Current:					
Instruction	96,925,400	9,085,753	-	-	106,011,153
Support services	56,707,048	3,948,164	299,804	165,845	61,120,861
Athletics	2,153,158	-	-	-	2,153,158
Food services	-	-	-	3,683,962	3,683,962
Community services	2,925,453	-	-	-	2,925,453
Debt service:					
Principal	-	-	-	8,755,000	8,755,000
Interest	-	-	-	9,926,450	9,926,450
Other debt costs	-	-	-	28,892	28,892
Capital outlay	1,405,240	63,570	19,193,554	10,046,884	30,709,248
Total expenditures	160,116,299	13,097,487	19,493,358	32,607,033	225,314,177
<b>Excess of Revenue Over (Under) Expenditures</b>	5,085,616	1,300,078	(18,968,702)	(4,303,641)	(16,886,649)
<b>Other Financing Sources (Uses)</b>					
Proceeds from sale of capital assets (Note 6)	1,762,131	-	-	-	1,762,131
Transfers in (Note 7)	1,520,589	-	-	-	1,520,589
Transfers out (Note 7)	-	(1,320,589)	-	(200,000)	(1,520,589)
Total other financing sources (uses)	3,282,720	(1,320,589)	-	(200,000)	1,762,131
<b>Net Change in Fund Balances</b>	8,368,336	(20,511)	(18,968,702)	(4,503,641)	(15,124,518)
<b>Fund Balances - Beginning of year</b>	22,530,223	976,887	30,701,949	17,478,801	71,687,860
<b>Fund Balances - End of year</b>	<b>\$ 30,898,559</b>	<b>\$ 956,376</b>	<b>\$ 11,733,247</b>	<b>\$ 12,975,160</b>	<b>\$ 56,563,342</b>

# Livonia Public Schools

## Required Supplemental Information Budgetary Comparison Schedule General Fund

**Year Ended June 30, 2019**

	Original Budget	Final Budget	Actual	(Under) Over Final Budget
<b>Revenue</b>				
Local sources	\$ 29,324,677	\$ 30,464,351	\$ 31,006,482	\$ 542,131
State sources	114,948,102	114,388,650	115,626,857	1,238,207
Federal sources	36,700	26,634	28,670	2,036
Interdistrict sources	7,524,801	9,708,495	10,029,120	320,625
Total revenue	151,834,280	154,588,130	156,691,129	2,102,999
<b>Expenditures</b>				
Current:				
Instruction:				
Basic programs	76,012,443	75,364,680	74,622,809	(741,871)
Added needs	15,015,709	16,198,236	16,196,655	(1,581)
Support services:				
Pupil	11,618,692	9,670,079	9,629,403	(40,676)
Instructional staff	6,648,543	6,463,940	6,353,235	(110,705)
General administration	1,026,855	951,466	815,896	(135,570)
School administration	9,532,197	9,431,857	9,364,429	(67,428)
Business	2,523,101	2,188,173	1,977,683	(210,490)
Operations and maintenance	15,901,031	16,614,854	16,463,251	(151,603)
Pupil transportation services	8,311,255	9,075,657	8,020,906	(1,054,751)
Central	3,372,970	3,336,867	3,280,172	(56,695)
Athletics	2,175,000	2,311,607	2,187,383	(124,224)
Community services	3,097,114	2,954,369	2,782,797	(171,572)
Interdistrict payments	59,945	-	-	-
Total expenditures	155,294,855	154,561,785	151,694,619	(2,867,166)
<b>Excess of Revenue (Under) Over Expenditures</b>	(3,460,575)	26,345	4,996,510	4,970,165
<b>Other Financing Sources (Uses)</b>				
Proceeds from sale of capital assets	575,000	1,758,665	1,762,131	3,466
Transfers in	1,800,000	1,800,000	1,621,788	(178,212)
Transfers out	-	(12,093)	(12,093)	-
Total other financing sources	2,375,000	3,546,572	3,371,826	(174,746)
<b>Net Change in Fund Balance</b>	(1,085,575)	3,572,917	8,368,336	4,795,419
<b>Fund Balance - Beginning of year</b>	22,530,223	22,530,223	22,530,223	-
<b>Fund Balance - End of year</b>	<u>\$ 21,444,648</u>	<u>\$ 26,103,140</u>	<u>\$ 30,898,559</u>	<u>\$ 4,795,419</u>

Required Supplemental Information  
Budgetary Comparison Schedule  
General Fund - Funded Projects

**Year Ended June 30, 2019**

	Original Budget	Final Budget	Actual	(Under) Over Final Budget
<b>Revenue</b>				
Local sources	\$ 116,936	\$ 250,533	\$ 134,837	\$ (115,696)
State sources	1,667,302	2,190,216	1,918,664	(271,552)
Federal sources	6,160,000	7,018,602	6,457,285	(561,317)
Total revenue	7,944,238	9,459,351	8,510,786	(948,565)
<b>Expenditures</b>				
Current:				
Instruction	5,777,050	6,512,093	6,258,300	(253,793)
Support services	1,906,617	2,661,912	2,020,724	(641,188)
Community services	158,885	186,759	142,656	(44,103)
Total expenditures	7,842,552	9,360,764	8,421,680	(939,084)
<b>Excess of Revenue Over (Under) Expenditures</b>	101,686	98,587	89,106	(9,481)
<b>Other Financing Sources (Uses)</b>				
Transfers in	-	12,093	12,093	-
Transfers out	(101,686)	(110,680)	(101,199)	9,481
Total other financing uses	(101,686)	(98,587)	(89,106)	9,481
<b>Net Change in Fund Balances</b>	-	-	-	-
<b>Fund Balances - Beginning of year</b>	-	-	-	-
<b>Fund Balances - End of year</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**June 30, 2019**

	<u>Governmental Activities</u>
<b>Assets</b>	
Cash and investments (Note 4)	\$ 32,020,159
Receivables:	
Property taxes receivable	779,873
Other receivables	911,200
Due from other governments	24,704,636
Inventory	145,199
Prepaid expenses and other assets	119,300
Restricted assets - Cash and cash equivalents (Note 4)	28,639,136
Capital assets - Net (Note 6)	<u>264,377,731</u>
Total assets	351,697,234
<b>Deferred Outflows of Resources</b>	
Deferred pension costs (Note 9)	104,115,364
Deferred OPEB costs (Note 9)	<u>15,071,216</u>
Total deferred outflows of resources	119,186,580
<b>Liabilities</b>	
Accounts payable	8,278,607
Due to other governmental units	6,915,958
Accrued liabilities and other	13,373,007
Unearned revenue (Note 5)	1,616,664
Noncurrent liabilities:	
Due within one year: (Note 8)	
Compensated absences	516,864
Current portion of bonds and contracts payable	10,296,501
Due in more than one year (Note 8)	201,126,626
Net pension liability (Note 9)	333,583,678
Net OPEB liability (Note 9)	<u>88,042,409</u>
Total liabilities	663,750,314
<b>Deferred Inflows of Resources</b>	
Deferred benefit on bond refunding (Note 8)	2,486,911
Revenue in support of pension contributions made subsequent to the measurement date (Note 9)	12,214,482
Deferred pension cost reductions (Note 9)	29,375,160
Deferred OPEB cost reductions (Note 9)	<u>19,791,589</u>
Total deferred inflows of resources	<u>63,868,142</u>
<b>Net Position</b>	
Net investment in capital assets	69,224,567
Restricted:	
Debt service	2,349,450
Capital projects	1,997,084
Unrestricted	<u>(330,305,743)</u>
Total net position	<u><u>\$ (256,734,642)</u></u>



**Proprietary Funds  
Statement of Net Position**

**June 30, 2019**

**Internal Service  
Fund - Health  
and Welfare  
Fund**

**Assets**

Current assets:

Due from other funds (Note 7)

\$ 3,648,780

Prepaid expenses and other assets

42,986

Total assets

3,691,766

**Liabilities**

Current liabilities:

Accounts payable

1,833,255

Claims payable (Note 10)

440,426

Total liabilities

2,273,681

**Net Position - Unrestricted**

**\$ 1,418,085**

June 30, 2019

**Note 9 - Michigan Public School Employees' Retirement System (Continued)**

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ -	\$ (16,386,954)
Changes in assumptions	9,323,736	-
Net difference between projected and actual earnings on OPEB plan investments	-	(3,383,680)
Changes in proportionate share or difference between amount contributed and proportionate share of contributions	147,313	(20,955)
Employer contributions to the plan subsequent to the measurement date	5,600,167	-
<b>Total</b>	<b>\$ 15,071,216</b>	<b>\$ (19,791,589)</b>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows (note that employer contributions subsequent to the measurement date will reduce the net OPEB liability and, therefore, will not be included in future OPEB expense):

Years Ending	Amount
2020	\$ (2,552,313)
2021	(2,552,313)
2022	(2,552,313)
2023	(1,862,135)
2024	(801,466)
<b>Total</b>	<b>\$ (10,320,540)</b>

**Actuarial Assumptions**

The total pension liability and total OPEB liability as of September 30, 2018 is based on the results of an actuarial valuation as of September 30, 2017 and rolled forward. The total pension liability and OPEB liability were determined using the following actuarial assumptions:

Actuarial cost method		Entry age normal cost actuarial cost method
Investment rate of return - Pension	6.00% - 7.05%	Net of investment expenses based on the groups
Investment rate of return - OPEB	7.15%	Net of investment expenses based on the groups
Salary increases	2.75% - 11.55%	Including wage inflation of 2.75% for 2019 and 3.50% for 2018
Healthcare cost trend rate - OPEB	7.50% (Year 1 graded to 3.0% year 12)	
Mortality basis	RP2014 Male and Female Employee Annuitant Mortality tables, scaled 100% (retirees: 82% male and 78% for females) and adjusted for mortality improvements using projection scale MP2017 from 2006	
Cost of living pension adjustments	3.00%	Annual noncompounded for MIP members

Assumption changes as a result of an experience study for the periods from 2012 to 2017 have been adopted by the System for use in the annual pension and OPEB valuations beginning with the September 30, 2017 valuation.

**Note 9 - Michigan Public School Employees' Retirement System (Continued)**

**Discount Rate**

The discount rate used to measure the total pension liability was 6.00 to 7.05 percent as of September 30, 2018 depending on the plan option. The discount rate used to measure the total OPEB liability was 7.15 percent as of September 30, 2018. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that district contributions will be made at statutorily required rates.

Based on those assumptions, the pension plan's fiduciary net position and the OPEB plan's fiduciary net position were projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan and OPEB plan investments was applied to all periods of projected benefit payments to determine the total pension liability and total OPEB liability.

The long-term expected rate of return on pension plan and OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Domestic equity pools	28.00 %	5.70 %
Private equity pools	18.00	9.20
International equity pools	16.00	7.20
Fixed-income pools	10.50	0.50
Real estate and infrastructure pools	10.00	3.90
Absolute return pools	15.50	5.20
Short-term investment pools	2.00	-
Total	100.00 %	

**Sensitivity of the Net Pension Liability to Changes in the Discount Rate**

The following presents the net pension liability of the School District, calculated using the discount rate depending on the plan option. The following also reflects what the School District's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	1 Percent Decrease (5.00 - 6.05%)	Current Discount Rate (6.00 to 7.05%)	1 Percent Increase (7.00 - 8.05%)
Net pension liability of the School District	\$ 437,969,605	\$ 333,583,678	\$ 246,855,941

**Sensitivity of the Net OPEB Liability to Changes in the Discount Rate**

The following presents the net OPEB liability of the School District, calculated using the current discount rate. It also reflects what the School District's net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

June 30, 2019

**Note 9 - Michigan Public School Employees' Retirement System (Continued)**

	1 Percent Decrease (6.15%)	Current Discount Rate (7.15%)	1 Percent Increase (8.15%)
Net OPEB liability of the School District	\$ 105,693,121	\$ 88,042,409	\$ 73,196,003

**Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rate**

The following presents the net OPEB liability of the School District, calculated using the current healthcare cost trend rate. It also reflects what the School District's net OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	1 Percent Decrease (6.50%)	Current Rate (7.50%)	1 Percent Increase (8.50%)
Net OPEB liability of the School District	\$ 72,413,911	\$ 88,042,409	\$ 105,971,486

**Pension Plan and OPEB Plan Fiduciary Net Position**

Detailed information about the plan's fiduciary net position is available in the separately issued MPSERS financial report.

**Payable to the Pension Plan and OPEB Plan**

At June 30, 2019, the School District reported a payable of \$4,730,732 and \$614,108 for the outstanding amount of contributions to the pension plan and OPEB plan, respectively, required for the year ended June 30, 2019.

**Note 10 - Risk Management**

The School District is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation). The School District has purchased commercial insurance for health claims. The School District also participates in the Metropolitan Association for Improved School Legislation (M.A.I.S.L.) risk pool for claims relating to property loss, torts, and errors and omissions; the School District is self-insured for workers' compensation. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The shared-risk pool program in which the School District participates operates as a common risk-sharing management program for school districts in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

The School District estimates the liability for workers' compensation claims that have been incurred through the end of the fiscal year, including claims that have been reported as well as those that have not yet been reported. Changes in the estimated liability for the past two fiscal years were as follows:

	2019	2018
Estimated liability - Beginning of year	\$ 452,142	\$ 783,970
Estimated claims incurred, including changes in estimates	207,159	154,593
Claim payments	(218,875)	(486,421)
Estimated liability - End of year	<u>\$ 440,426</u>	<u>\$ 452,142</u>

**Schedule of Findings and Questioned Costs**

**Year Ended June 30, 2019**

**Section I - Summary of Auditor's Results**

**Financial Statements**

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? \_\_\_\_\_ Yes      X   No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? \_\_\_\_\_ Yes      X   None reported

Noncompliance material to financial statements noted? \_\_\_\_\_ Yes      X   None reported

**Federal Awards**

Internal control over major programs:

- Material weakness(es) identified? \_\_\_\_\_ Yes      X   No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? \_\_\_\_\_ Yes      X   None reported

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with Section 2 CFR 200.516(a)? \_\_\_\_\_ Yes      X   No

Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
10.553, 10.555 84.010	Child Nutrition Cluster Title I, Part A

Dollar threshold used to distinguish between type A and type B programs: \$750,000

Auditee qualified as low-risk auditee?   X   Yes    \_\_\_\_\_ No

**Section II - Financial Statement Audit Findings**

Finding

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None

**Section III - Federal Program Audit Findings**

Finding

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None

Federal Agency Name / Pass Through Agency / Federal Program Title	Grant/Project Number	Federal CFDA Number	Approved Grant Amount	(Memo Only) Prior Year Expenditures	Accrued (Deferred) Revenue as of July 1, 2018	Federal Funds/Payments In-kind Received	Expenditures	Accrued (Deferred) Revenue as of June 30, 2019	Current Year Cash Transferred to Subrecipients
Clusters:									
Child Nutrition Cluster:									
Child Nutrition Cluster - U.S. Department of Agriculture -									
Non cash assistance (commodities) - National School Lunch Program:									
Entitlement commodities 1819	N/A	10.555	\$ 181,108	\$ -	\$ -	\$ 181,108	\$ 181,108	\$ -	\$ -
Cash assistance:									
National School Lunch Program 2017-2018	181960	10.555	1,451,993	1,451,993	71,740	71,740	-	-	-
National School Lunch Program 2018-2019	191960	10.555	1,464,288	-	-	1,400,756	1,464,288	63,532	-
Total National School Lunch Program (incl. commodities)		10.555	3,097,389	1,451,993	71,740	1,653,604	1,645,396	63,532	-
National School Breakfast Program 2017-2018	181970	10.553	324,287	324,287	20,016	20,016	-	-	-
National School Breakfast Program 2018-2019	191970	10.553	336,076	-	-	316,985	336,076	19,091	-
Total National School Breakfast Program		10.553	660,363	324,287	20,016	337,001	336,076	19,091	-
Total Child Nutrition Cluster			3,757,752	1,776,280	91,756	1,990,605	1,981,472	82,623	-
Special Education Cluster : U.S. Department of Education -									
Passed through Wayne County RESA:									
IDEA, Part B:									
IDEA Flowthrough - Regular 1617	170450	84.027A	3,173,412	3,173,412	153,160	153,160	-	-	-
IDEA Flowthrough - Regular 1718	180450	84.027A	3,034,410	3,034,410	101,881	101,881	-	-	-
IDEA Flowthrough - Regular 1819	190450	84.027A	3,226,841	-	-	2,079,411	3,226,841	1,147,430	-
IDEA Flowthrough - Regular subtotal			9,434,663	6,207,822	255,041	2,334,452	3,226,841	1,147,430	-
IDEA Flowthrough CPE - Regular 1718	180450	84.027A	811,727	811,727	523,747	523,747	-	-	-
IDEA Flowthrough CPE - Regular 1819	190450	84.027A	611,776	-	-	611,776	611,776	-	-
Total IDEA CPE subtotal		84.027A	1,423,503	811,727	523,747	1,135,523	611,776	-	-
IDEA Preschool:									
IDEA Preschool 1718	180460	84.173A	195,149	195,149	49,641	49,641	-	-	-
IDEA Preschool 1819	190460	84.173A	209,082	-	-	180,768	209,082	28,314	-
Total IDEA Preschool		84.173A	404,231	195,149	49,641	230,409	209,082	28,314	-
Total Special Education Cluster			11,262,397	7,214,698	828,429	3,700,384	4,047,699	1,175,744	-
Medicaid Cluster									
U.S. Department of Health and Human Services-									
Passed through Wayne County RESA- Medicaid Outreach 1819									
		93.778	23,509	-	-	23,509	23,509	-	-
Total of Cluster Programs			15,043,658	8,990,978	920,185	5,714,498	6,052,680	1,258,367	-

Schedule of Expenditures of Federal Awards (Continued)

Year Ended June 30, 2019

Federal Agency/Pass-through Agency/Program Title	Grant/Project Number	CFDA Number	Award Amount	(Memo Only) Prior Year Expenditures	Accrued Revenue at July 1, 2018	Federal Funds/ Payments In-kind Received	Federal Expenditures	Accrued Revenue at June 30, 2019	Current Year Cash Transferred to Subrecipients
Other Federal Programs:									
U.S. Department of Education - Passed through Michigan Department of Education:									
TITLE I, Part A:									
Title I Part A 1718	181530	84.010	\$ 1,471,505	\$ 1,343,965	\$ 109,930	\$ 109,930	\$ -	\$ -	\$ -
Title I Part A 1819	191530	84.010	1,390,221	-	-	1,208,813	1,351,408	142,595	-
Total Title I Part A		84.010	2,861,726	1,343,965	109,930	1,318,743	1,351,408	142,595	-
TITLE II, Part A:									
Title II Part A Supporting Effective Instruction 1718	180520	84.367	377,622	269,462	22,650	22,650	-	-	-
Title II Part A Supporting Effective Instruction 1819	190520	84.367	808,164	-	-	312,651	433,238	120,587	-
Title II Part A Teacher and Leader Instruction Support 1819	190532	84.367	117,136	-	-	9,604	11,864	2,260	-
Total Title II Part A		84.367	1,302,922	269,462	22,650	344,905	445,102	122,847	-
TITLE III, English Language Acquisition State Grants:									
Title III Immigrant Students 2018-2019	190570	84.365A	24,911	-	-	19,028	23,494	4,466	-
Title III Limited English Proficient Students 2017-2018	180580	84.365A	60,546	60,546	193	193	-	-	-
Title III Limited English Proficient Students 2018-2019	190580	84.365A	65,361	-	-	58,293	61,425	3,132	-
Total Title III English Language Acquisition State Grants:		84.365A	150,818	60,546	193	77,514	84,919	7,598	-
TITLE IV, Part A SSAE:									
Title IV, Part A Student Support and Academic Enrichment 2018-2019	190750	84.424A	113,460	-	-	102,201	113,460	11,259	-
Adult Education-Basic Grants to States									
Federal General Instruction 2017-2018	181130	84.002A	197,780	197,169	29,331	29,331	-	-	-
Federal General Instruction 2018-2019	191130	84.002A	164,745	-	-	54,978	132,336	77,358	-
Total Adult Education-Basic Grants to States		84.002A	362,525	197,169	29,331	84,309	132,336	77,358	-
U.S. Department of Education - Passed through Wayne County RESA:									
Carl D. Perkins Career and Technical Education Program:									
Carl D. Perkins Grant 2017-2018	183520	84.048A	236,446	232,828	38,626	38,626	-	-	-
Carl D. Perkins Grant 2018-2019	193520	84.048A	286,905	-	-	186,632	282,361	95,729	-
Total Perkins Career and Technical Education Program		84.048A	523,351	232,828	38,626	225,258	282,361	95,729	-
U.S. Department of Agriculture - Passed through Michigan Department of Education:									
Child and Adult Care Food Program:									
CACFP Meals 2017-2018		10.558	4,920	4,920	772	772	-	-	-
CACFP Meals 2018-2019		10.558	5,161	-	-	4,144	5,161	1,017	-
Total Child and Adult Care Food Program		10.558	10,081	4,920	772	4,916	5,161	1,017	-
Total of Non-Cluster Programs			5,324,883	2,108,890	201,502	2,157,846	2,414,747	458,403	-
Total Federal Awards			\$ 20,368,541	\$ 11,099,868	\$ 1,121,687	\$ 7,872,344	\$ 8,467,427	\$ 1,716,770	\$ -

October 7, 2019

To the Board of Education

Livonia Public Schools

We have audited the financial statements of Livonia Public Schools (the "School District") as of and for the year ended June 30, 2019 and have issued our report thereon dated October 7, 2019. Professional standards require that we provide you with the following information related to our audit.

**Our Responsibility Under U.S. Generally Accepted Auditing Standards**

As stated in our engagement letter dated May 7, 2019, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities. Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement.

As part of our audit, we considered the internal control of the School District. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

Our audit of the School District's financial statements has also been conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. Under *Government Auditing Standards*, we are obligated to communicate certain matters that come to our attention related to our audit to those responsible for the governance of the School District, including compliance with certain provisions of laws, regulations, contracts, grant agreements, certain instances of error or fraud, illegal acts applicable to government agencies, and significant deficiencies in internal control that we identify during our audit. Toward this end, we issued a separate letter dated October 7, 2019 regarding our consideration of the School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements.

**Planned Scope and Timing of the Audit**

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on August 14, 2019.



## **Significant Audit Findings**

### ***Qualitative Aspects of Accounting Practices***

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

No new accounting policies were adopted, and the application of existing policies was not changed during 2019.

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

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

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

The most sensitive estimates affecting the financial statements were the School District's share of the MPERS net liabilities for the pension and other postemployment benefit (OPEB) plans recorded on the government-wide statements related to GASB Statement Nos. 68 and 75, respectively. The School District's estimates as of June 30, 2019 were approximately \$259 million and \$93 million 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 they are 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.

### ***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.

None of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole. The attached schedule summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

### ***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 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 October 7, 2019.

### ***Management Representations***

We have requested certain representations from management that are included in the management representation letter dated October 7, 2019.

### ***Management Consultations with Other Independent Accountants***

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the School District's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

This information is intended solely for the use of the Board of Education and management of the School District and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

**Plante & Moran, PLLC**

Lisa Vargo

DRAFT

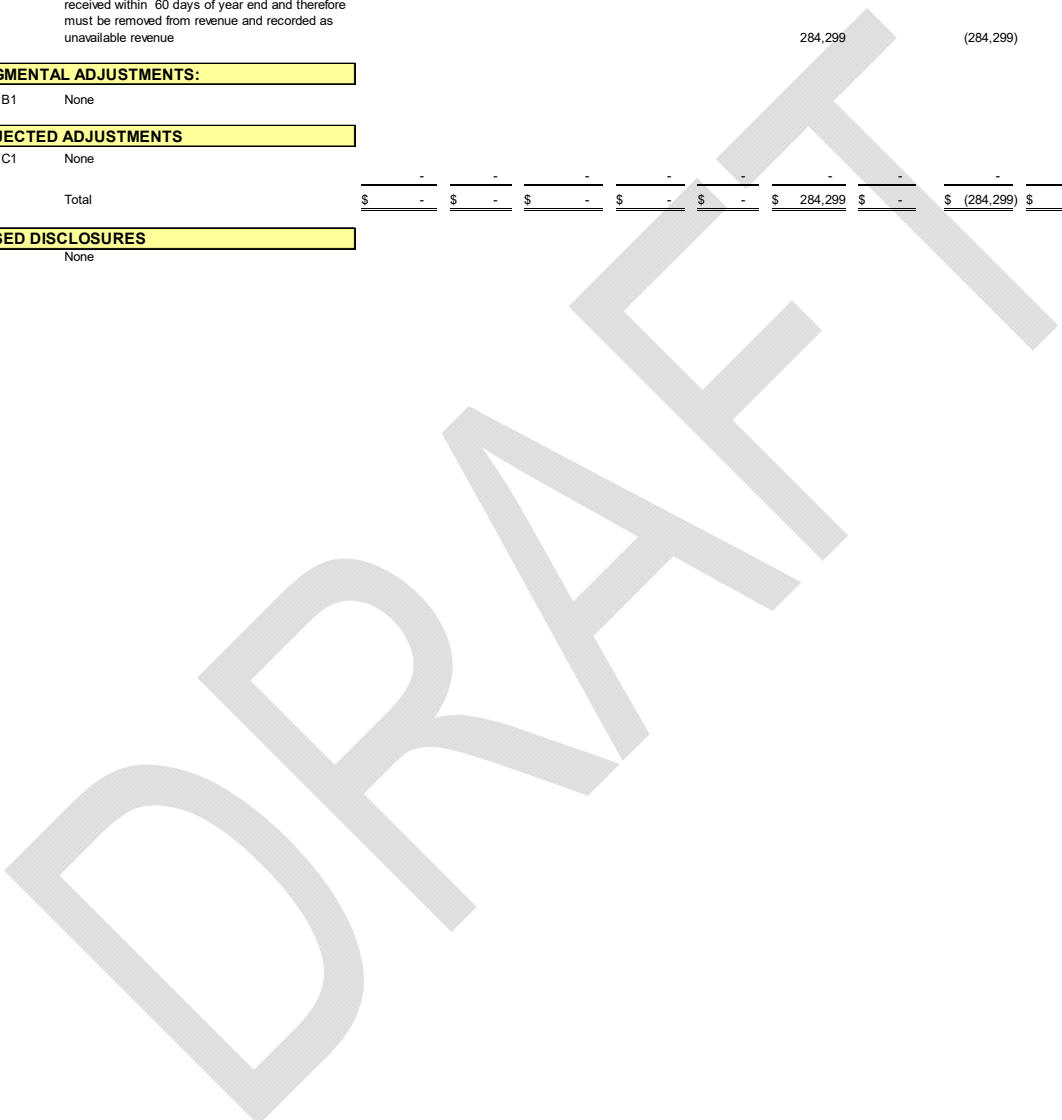
Summary of Unrecorded Possible Adjustments

Client: Livonia Public Schools  
 Opinion Unit: General Fund  
 Y/E: 6/30/2019

**SUMMARY OF UNRECORDED POSSIBLE ADJUSTMENTS**

The effect of misstatements and classification errors identified would be to increase (decrease) the reported amounts in the financial statement categories identified below:

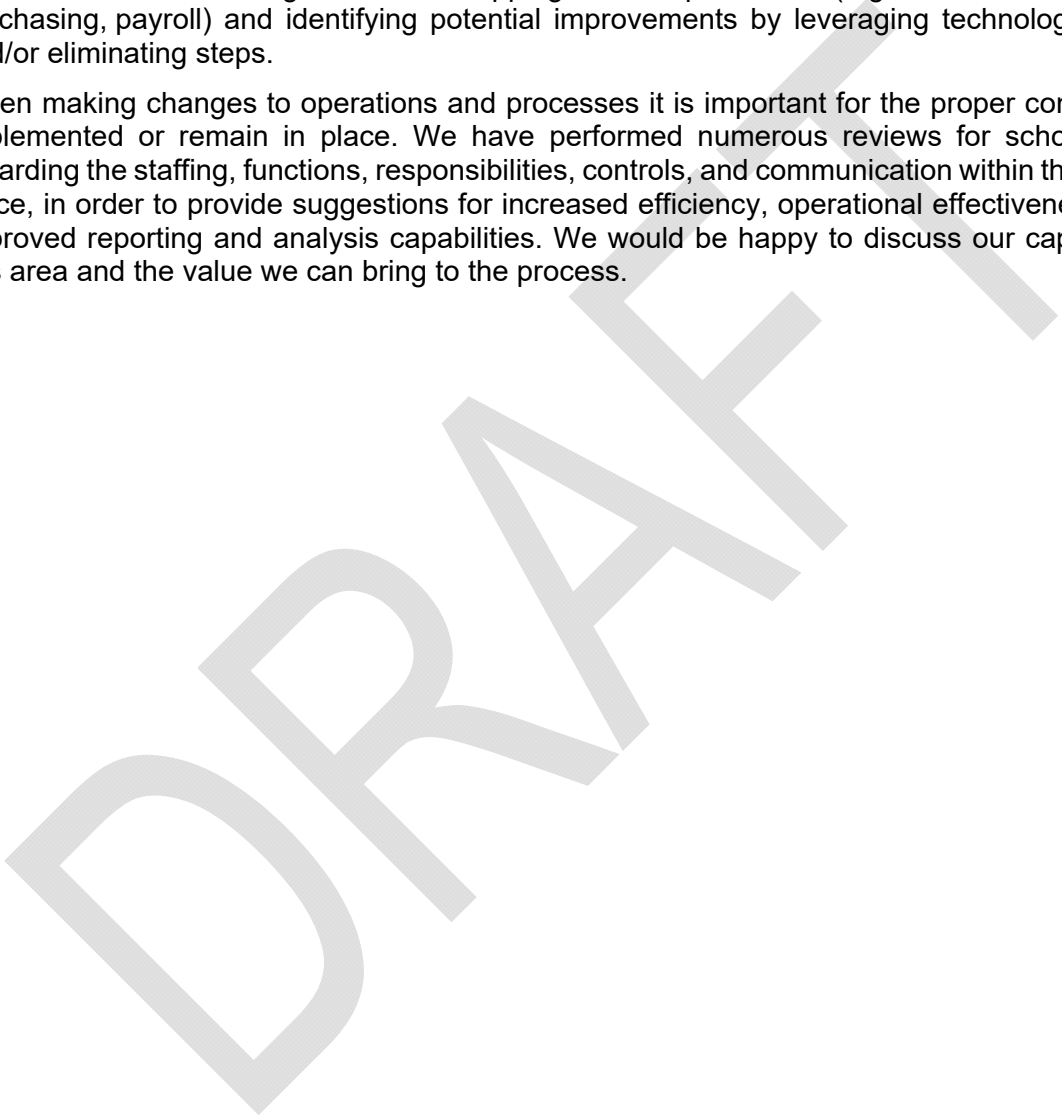
Ref. #	Description of Misstatement	Current Assets	Long-term Assets	Deferred Outflows of Resources	Current Liabilities	Long-term Liabilities	Deferred Inflows of Resources	Fund Balance	Revenue	Expenses	Change in Fund Balance Impact
<b>FACTUAL MISSTATEMENTS:</b>											
A1	Title I, II, III, and IV proceeds were received on September 10, 2019. These proceeds were not received within 60 days of year end and therefore must be removed from revenue and recorded as unavailable revenue						284,299		(284,299)		(284,299)
<b>JUDGMENTAL ADJUSTMENTS:</b>											
B1	None										-
<b>PROJECTED ADJUSTMENTS</b>											
C1	None										-
	Total	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 284,299	\$ -	\$ (284,299)	\$ -	\$ (284,299)
<b>PASSED DISCLOSURES</b>											
D1	None										-



**Operations Review and Controls Assessment**

Given the current economic climate, school districts face continued pressure to do more with fewer resources. Staff sizes have been reduced in many districts, while demands for services and reporting requirements have increased. An operations review can be very helpful to the School District in identifying ways to optimize the resources it has. The School District may benefit from reviewing and redesigning processes to ensure that only value-added steps are included in the process. Process redesign involves mapping current processes (e.g., facilities work orders, purchasing, payroll) and identifying potential improvements by leveraging technology systems and/or eliminating steps.

When making changes to operations and processes it is important for the proper controls to be implemented or remain in place. We have performed numerous reviews for school districts regarding the staffing, functions, responsibilities, controls, and communication within the business office, in order to provide suggestions for increased efficiency, operational effectiveness, and/or improved reporting and analysis capabilities. We would be happy to discuss our capabilities in this area and the value we can bring to the process.



### **STATE AID FUNDING**

#### **State Aid and the Foundation Allowance**

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

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

2019-2020 Foundation: For the 2019-2020 fiscal year, the target foundation allowance (formerly known as the basic foundation allowance) increases by \$120, from \$8,409 to \$8,529. Additionally, using the "2X formula," the minimum foundation allowance increases by \$240 per pupil to \$8,111. Based on these changes, the School District will receive a \$120 increase in its foundation allowance, representing an increase of 1.4 percent. When signing the bill, the governor exercised several significant line item vetoes. As a result, it is likely that there will be additional changes to funding for public education for 2019-2020. What will ultimately occur is unclear and will require careful monitoring by the District. Although the foundation allowance for school districts has been finalized, the governor has made multiple line item vetoes to the School Aid bill which impact various funding categoricals. The impact to each local district is yet to be determined until the Governor signs the final bill.

Pupil Membership Blend for 2018-2019 and 2019-2020: The method for counting students for 2018-2019 used calendar year counts with a weighting of 90 percent of the fall count and 10 percent of the February count. The 2018 calendar year counts were used to for the 2018-2019 fiscal year funding. It is expected that this methodology will continue for 2019-2020.

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

MPSERS Cost Support: Retirement system contributions are a significant part of the School District's labor costs. During 2018-2019, the contribution rate the School District is required to pay continued to rise, though the growth rate has slowed. In addition, as a result of PA 92, the program offerings have changed and increased in complexity. The School District has no ability to influence the rate and no choice regarding its participation in the program. To aid the School District in meeting its obligation, the 2018-2019 State Aid Act continued to include several funding sources to help pay for some of the increased cost. Each categorical aid section is formula driven using the School District's MPSERS payroll participation data, and each is designed to support a specific cost factor in the retirement contribution. Funding is provided in three separate sections of the State Aid Act, Sections 147a, 147c, and 147e. The School District received a total of \$1,318,699 in 147a1, \$1,042,622 in 147a2, \$12,214,482 in 1471c1, and \$141,261 of 147e categorical aid to help offset the impact of its retirement costs. Both governor and legislative proposals included these categoricals for 2019-2020. Included in the final house bill presented to the governor were increases to the MPSERS retirement rates. The estimated contribution rate now ranges from 36.44% to 39.91%, of which the rate paid directly by the employer now ranges from 24.03% to 27.50%. To help offset the increase in retirement rates, and also to help offset reduced assumed rate of return in the pension plan, the bill also provides for an increase in 147a2 funding provided to the districts. In general terms, this means that the total cost of the retirement system contributions in 2018-2019, representing approximately 39 percent of covered payroll, is recognized as an expenditure in the School District's financial statements along with related revenue that was previously considered state support to the system. The net effect is that the School District is responsible for approximately a 27 percent contribution to the retirement system. The School District budgeted for additional state revenue and additional retirement expenditures in order to accommodate this funding mechanism, but may encounter some budget variances due to the fact that the state revenue provided is based on prior year school district payroll information, and some amounts were adjusted with the August 2019 state aid payment.

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

#### **Other State Aid Act Changes Impacting 2018-2019**

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

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

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

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

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

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

### **State Aid Planning Considerations for 2019-2020 and Beyond**

Michigan's economy is growing steadily, and continued growth is expected, but at a slower pace based on the May 2019 Revenue Estimating Conference predictions. A new governor has brought revised priorities for education and for state operations. The State's budget process demonstrates that state leaders are struggling with how best to address the State's policy needs. This struggle directly impacts the level of school funding, the allocation of school funding resources, and the educational initiatives. Regardless of the results of the 2019-2020 state budget process, it is likely that there will continue to be strains placed on the School Aid Fund resources. How these issues are worked through the legislative process will have a direct impact on the School District's near-term and long-term funding structures. Careful review of the budget priorities and budget development process will be essential as the School District continues to craft its plans for delivery of educational services.



Regardless of the results from the 2019-2020 State Aid Act amendments, careful planning will continue 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. Especially when facing uncertainty, we recommend the School District fully analyze the projected revenue assumptions to estimate resources available to fund operations when entering into multiyear expenditure agreements.

### **Fund Balance**

Prior to 2018-2019, the focus of state funding did not provide significant new resources for operations for most districts. In 2018-2019, the rate of increase for districts is essentially two times the rate of the previous two years. Unfortunately, current Revenue Estimating Conference estimates do not necessarily support a continuing rate of increase consistent with 2018-2019, making financial projections more difficult for districts. We feel that it is important for the School District to maintain an appropriate level of fund equity. We believe that the benefit of the School District maintaining an appropriate amount of fund equity allows the School District the ability to maintain its current level of programs while being able to meet unforeseen circumstances, like the implementation of state aid funding changes or a significant change in enrollment. This becomes especially important due to the funding caps imposed by school finance reform; increasing retirement and healthcare costs; other cost pressures the School District is facing, including cash flow needs due to the fact approximately 18 percent of the School District's state aid is received after the school year has ended; and concerns over the allocation of resources within the School Aid Fund in the future and the fact that the State is increasing its monitoring of each school district's financial health, including implications from the Early Warning requirements.

During the 2018-2019 school year, the School District's General Fund revenue exceeded expenditures (expenditures exceeded revenue) by approximately \$8.4 million. This resulted in increasing the General Fund equity to approximately \$30.9 million at June 30, 2019. 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, 2018 is approximately 13.96 percent of expenditures (excluding transfers out). Fund equity of 5.5 percent of expenditures would approximately equal the School District's average accounts payable balance and payroll for a three-week period. The School District's fund equity percentage is 19.30 percent and equals approximately 10 weeks of operation. Clearly, the School District must continue focus on difficult budget projections in 2019-2020 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.

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

The 2019 Compliance Supplement has been released. This supplement is issued as one stand-alone document and includes significant and extensive changes this year compared to recent years. The 2019 Compliance Supplement will be effective for audits of fiscal years beginning after June 30, 2018. Appendix V of the 2019 Compliance Supplement identifies all changes at a high level and identifies specific programmatic changes by CFDA number. The most significant change implemented is the six-requirement mandate, in which the Office of Management and Budget

(OMB) requires agencies to limit compliance requirements subject to the compliance audit to six per program or cluster included in the 2019 Compliance Supplement. For “counting” purposes, the requirements relating to (a) activities allowed and unallowed, and (b) allowable costs and cost principles are counted as one requirement. In addition at the 11<sup>th</sup> hour OMB issued a revision to the Supplement issued in July. These changes issued in September did have some impact on grants provided to public education, further complicating the 2019 audit process. It is important to note that auditees are still required to comply with all applicable grant regulations. While auditees may experience some change in audit focus in preparing for the audit, facts and circumstances of each grant will dictate the impact on the audit of federal grants.

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

- The collections system now allows all respondents to enter the federal awards and notes to the SEFA prior to the end of their fiscal period and the audit work being conducted. Once this information is entered, users may generate a customizable SEFA and notes to the SEFA from the system to include in their reporting package.
- Part II, Item 2 will be used to provide the notes to the SEFA, including a description of the significant accounting policies used in preparing the SEFA, whether the auditee elected to use the *de minimis* cost rate, and any additional notes included in the reporting package, excluding charts, tables, or footnotes.
- Part III, Item 5 will be used to collect the full, detailed text of any audit findings exactly as it appears in the schedule of findings and questioned costs (2 CFR 200.516(b)), excluding charts, tables, or footnotes. This information is now being collected at the request of federal agencies for audit finding resolution purposes.
- Part IV will be used to collect the full, detailed text of the corrective action plan exactly as it appears in the auditee’s corrective action plan (CAP) (2 CFR 200.511(c)), excluding charts, tables, or footnotes. This information is now being collected at the request of federal agencies for audit finding resolution purposes.

#### **GASB Statement No. 84 - Fiduciary Activities**

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

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

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

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

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

These preliminary views would have a significant impact on the accounting and financial reporting for school districts. Currently, school districts account for activity in the funds using the “modified accrual” basis of accounting. The PVs argue that, under the current model, there is no sufficient framework that ensures that governmental entities are consistently reporting similar types of transactions in their financial statements. They also argue that the “time period” looked at for certain transactions in fund accounting is too short and that the current method has too many “piecemeal” guidance points rather than a conceptual framework against which transactions can be applied in order to determine the correct accounting. Some of the proposed changes in the PV (which are significantly different compared to the current model) include the following:

- Requiring additional information in the management’s discussion and analysis (MD&A)
- Requiring a statement of cash flows for governmental-type funds (currently only required for enterprise-type funds)
- In the budget to actual statements, requiring a column that would show the variances between the original and amended budget
- In the fund-based statements:
  - Significant terminology changes
  - Alternative 1: GASB to attempt to list out all possible transactions and then attempt to provide guidance on how/when to account for them in the funds
  - Alternative 2: GASB to adopt a framework that would help to define “short term.” The School District would then apply the transaction against the framework to determine how/when to account for it in the fund-level financial statements.
  - Under either alternative, there would likely be significant changes to when certain transactions are being accounted for in the funds. A typical example would be

revenue recognition. Under today's rules, if a receivable is not collected within 60 days of the school district's year end, then the related revenue, generally, must be deferred until the following year. Under the proposed changes, the revenue can be recognized in the current period as long as it will be collected within one year of the current period end. In this example, revenue in the funds may be recognized sooner in the proposed new model as compared to the current model.

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

#### **GASB Statement No. 87 - Leases**

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

#### **INFORMATION TECHNOLOGY**

##### **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 “August2019” 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 the following:

- Do you know where all of the various data resides in the School 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 allowing for a confident communication to the public that its student and employee data is secure. If you are interested in discussing this further, we would be happy to continue the conversation.

### **The Importance of Data Governance**

The School District has a number of information systems that do not necessarily integrate with one another, inhibiting the ability to analyze across different software platforms. You probably have disparate systems in place to manage the data from the various sources throughout the School District, including instruction, assessments, professional development, special education, business office, and human resources (among others). Each of your data sources likely has a different “owner” of the data contained within.

An effective data governance framework seeks to address these issues by formalizing the definition of the people, processes and technologies within the School District regarding the following:

- Ownership of the data in various sources or functional areas
- Responsibility for data quality and integrity
- Facilitation of accessibility to data
- Usability of district data
- Overall data security district wide

It is important to establish this framework in the School District; once you have, you will increase the probability of the following:

- Data is accurate.
- Stakeholders trust that the data is accurate.
- Data driven decision making is enabled.
- Increased security around data.

Data strategy and governance is often an area where districts lack the time to effectively implement. If the School District has encountered any of the issues described above and is

seeking assistance with an overall data strategy, we would be happy to further discuss how we might be of assistance.

### **Taking Advantage of Data Analytics within K12 School Districts**

The School District collects more data than ever before, but has it helped you take meaningful action? The complexity of drawing actionable insight from larger, disparate data sources often stands in the way of making better, data-driven decisions. The landscape of opportunity within advanced analytics can create order from the chaos and transform your data into actions that make a difference. Understanding the right approach is based on an assessment of the goals of the School District. Based on our experience, we suggest school districts begin considering a few initial questions:

**1. How can we better understand the needs of our student population?**

It has become increasingly more important to develop a deeper understanding of individual student, school, and districtwide performance. Actionable insight into your student population to create data-driven strategies is achievable through advanced analytics.

**2. Where might we be overspending?**

When faced with tighter budgets in an evolving and fiercely competitive funding environment, schools are relying more heavily on their data than their instinct to detect leakages and eliminate inefficiencies in their operations. Leveraging advanced analytics can optimize your in-district delivery model and identify opportunities to reduce operational costs.

**3. How can we develop a data-driven strategy?**

A staggering volume of education data is underutilized by school districts. Asking meaningful questions about the alignment of your data-vision, people, process, technology, and data governance is the first step towards preparing a data-driven strategy.

### **Fraud Prevention and Detection**

Over the last few years and currently in the news, the issues surrounding fraud have received increased attention. New and changing technologies have created additional threats and opportunities for fraud, as well as potential gaps in internal control. Has the School District reviewed the three components that, together, lead to fraudulent behavior?

These three components are as follows:

- Incentive (the reason to commit a fraud)
- Opportunity (the ability to commit the fraud)
- Rationalization/Attitude (the view of the world that makes the fraud acceptable)

Generally, it is necessary for all three to be present to experience a fraud. In any case, the School District can significantly impact one of the three elements - "opportunity."

To the degree the School District effectively identifies the "opportunities" that exist and implements controls to prevent and/or detect them, the likelihood of a significant fraud occurring is greatly reduced. While schools have often evaluated and revised internal controls within the

organization, a continual reassessment of areas where the potential for fraud has increased is essential. By doing so, processes and controls can be effectively modified to reduce the potential exposure. Studies show that being proactive with fraud prevention and detection results in a more than 50 percent reduction of losses due to fraud.

We would be happy to discuss risk assessment approaches with the School District to help refine its processes.