
Vicksburg Community Schools

Report to the Board of Education

June 30, 2023

To the Board of Education
Vicksburg Community Schools

We have recently completed our audit of the basic financial statements of Vicksburg Community Schools (the "School District") as of and for the year ended June 30, 2023. In addition to our audit report, we are providing the following results of the audit, other recommendations and observations, and informational items that impact the School District:

	<u>Page</u>
Results of the Audit	1-4
Other Recommendations and Observations	5-6
Informational Items	7-22

We are grateful for the opportunity to be of service to Vicksburg Community Schools. We would also like to extend our thanks to Steve Goss, Rebecca Durant, and the entire business office for their assistance and preparedness during the audit. We recognize that preparing for the audit is carried out in addition to your staff's normal daily activities. Should you have any questions regarding the comments in this report, please do not hesitate to call.

Plante & Moran, PLLC

October 25, 2023

Results of the Audit

October 25, 2023

To Management and the Board of Education
Vicksburg Community Schools

We have audited the financial statements of Vicksburg Community Schools (the "School District") as of and for the year ended June 30, 2023 and have issued our report thereon dated October 25, 2023. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated April 12, 2023, 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, and 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 25, 2023 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 July 20, 2023.

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 2023.

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

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

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

The most sensitive estimates affecting the financial statements were the School District's share of the MPSERS net liabilities for the pension and other postemployment benefit (OPEB) plans recorded on the government-wide statements related to GASB Statement Nos. 68 and 75, respectively. The School District's estimates as of June 30, 2023 were \$58.5 million and \$3.3 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 that they are reasonable in relation to the financial statements taken as a whole.

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

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in 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.

We did not detect any misstatements as a result of audit procedures.

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 October 25, 2023.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 25, 2023.

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 Vicksburg Community Schools and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Plante & Moran, PLLC

A handwritten signature in black ink that reads "Michael D. Foster". The signature is written in a cursive style with a large initial "M" and "F".

Michael D. Foster, CPA, CGMA
Partner

Other Recommendations and Observations

Food Service Fund - Fund Balance

We noted that the fund balance of the Food Service Fund continues to exceed the U.S. Department of Agriculture's maximum allowance of three months' worth of operating expenditures. The School District should continue to monitor its spenddown plan, entered into with the Michigan Department of Education, for reducing the balance to an acceptable level.

Informational Items

Managing the Changing Financial Resources Landscape

Since 2020, the School District has faced a continuously changing environment. The pandemic created significant uncertainty, followed by a significant infusion of federal resources, and ultimately a stable and growing fiscal platform for the state budget. As new resources are added, new challenges are created to effectively plan, develop, deliver, evaluate, and account for the programs and services. The new school aid budget will provide many significant opportunities for education. Once again, careful planning will be critical to put the School District in the best position to take advantage of these recurring and nonrecurring resources.

We understand the unique challenges school districts face within the changing funding landscape. We continue to work closely with state and federal decision-makers to both understand the changes and provide insight into potential implications. As a strategic partner and advocate for public education, we continue to meet with decision-makers before actions are finalized so that these groups can be well informed of the implications their actions will have on the students, your business office, and your financial statements. Our work continues with federal and state agencies as new or revised accounting and compliance guidance is developed so we can help school districts be better equipped to manage the new rules and requirements. As guidance is updated and opportunities are identified, we will continue to provide updates to aid the School District in managing changes and navigating complexities. We understand that the last several years have required substantial extra effort by the Board of Education, administration, teachers, and support staff to bring the School District through one of the most extraordinary times in education. We also understand that the work is not done, and we appreciate the opportunity to work side by side with your team during this next chapter.

School Funding - New Initiatives and More Resources for Public Schools

As Michigan exited the pandemic, the fiscal predictions for both the State's School Aid Fund and the General Fund have been strong. The May 2023 Consensus Revenue Estimating Conference predicted that there will be sufficient resources for current programs, with substantial resources for new initiatives. As schools entered the 2023/2024 fiscal year, the School Aid Bill was completed and signed into law. The bill provided for significant funding increases and resources to fund new initiatives agreed to by the governor and Legislature. Some key highlights include the following:

- In 2022/2023, schools saw the largest increase in per pupil funding since the start of Proposal A (1994/1995). In 2023/2024, that trend continues with a 5 percent increase (\$458 per pupil) in the target foundation allowance, now totaling \$9,608 per pupil.
- New funding available to declining enrollment districts to smooth the impact of resulting revenue decline
- Fundamental change to the funding of special education. Starting in 2023/2024, the State's obligation under the Headlee Amendment will be funded from the special education allocation within the school aid budget. Previously, a portion of that obligation was paid from the School District's foundation allowance allocation.
- Continued contributions to reduce the long-term cost of the MPSERS retirement system, even with discontinuation of the one-time \$1 billion contribution occurring in the 2022/2023 fiscal year
- Increased focus on At-Risk, including both additional funding and a new allocation strategy using an opportunity index that provides additional resources where higher student need exists
- Food service universal free breakfast and lunch put in place, which goes beyond what is provided by the federal Child Nutrition Cluster programs

- Preschool programs funded under the Great Start Readiness Program (GSRP) received an increased per pupil revenue allocation and increased eligibility thresholds to 300 percent of the poverty level, which significantly increased access to the program.
- Additional one-time resources to assist in funding mental health and school safety initiatives
- Additional transportation funding to incorporate a formula, including riders per square mile

Many of these initiatives have their roots in the education issues encountered during the pandemic, along with the desire to continue to address the recommendations first identified in the Michigan School Finance Collaborative, which outlined priorities for responding to education needs. This school aid funding also comes at a time when districts are planning for the federal funding cliff, as federal-level education-focused pandemic aid is concluding in September 2024. Careful planning to effectively leverage these new funding sources, along with managing programs initiated during the pandemic, will be critical for school districts throughout the 2023/2024 school year.

State Aid Funding

The 2022/2023 fiscal year provided a glimpse of what might occur as we began to exit the pandemic. Funding included significant increases and some significant one-time resources. It also began to highlight areas requiring additional investment within education. For 2023/2024, improving predictions for state fiscal sustainability provided the governor and Legislature with the opportunity to continue their efforts in educational investment. As a result, the 2023/2024 budget provides significant resources for education, either as one-time funding or as additional recurring investments. This comes at a time when federal pandemic-related funding is nearing its end.

- **2022/2023 State Funding:** The May 2022 Consensus Revenue Estimating Conference predicted there would be sustainable revenue for the next few years. All schools, except for the few hold harmless districts, were funded at the target foundation allowance of \$9,150 per pupil. All schools, including hold harmless districts, received an increase from the previous year of \$450 per pupil. In addition, the State made additional strides related to recommendations resulting from the School Finance Research Collaborative, which includes increased funding levels for special education; At-Risk; wraparound services, such as nurses and counselors; and the Great Start Readiness Program.
- **2023/2024 State Funding:** Predictions from the May 2023 Consensus Revenue Estimating Conference reinforced the predictions for a growing and stable financial picture for the School Aid Fund for the next few years. These predictions provided the opportunity for the State to continue to make investments in education, shore up funding for long-standing programs, make investments where new needs were identified, and respond to the changing financial structure as federal pandemic-related funding begins to come to a close. Key highlights include the following:
 - Increasing the target foundation allowance by \$458 per pupil to \$9,608, a 5 percent increase. Hold harmless school districts also receive the \$458 per pupil increase. Cyber schools did not receive an increase and continue at \$9,150.
 - Continuing the traditional blended pupil count methodology, with 90 percent weighting for the October 2023 count and 10 percent weighting for the February 2023 count. However, for declining enrollment districts, a provision was added to use a two-year blended count to slow the impact of the decline on current year revenue. The definition in the State Aid Act suggests that a district would qualify if its 2023 final membership count is lower than the 2022 final membership count. In this case, the school will receive additional funding through Section 29. The additional amount is calculated based on the current foundation allowance multiplied by the difference between the sum of the membership blend of 50 percent of the blended 2022 count and 50 percent of the blended 2023 count and the blended 2023 membership count.

- Completing the change in funding of the state portion of special education. In 2023/2024, special education funding provided by the State will be provided from Section 51 of the State Aid Act. In the past, a portion of the funding was provided from Section 20, where the foundation allowance is determined. In short, special education funding is now fully treated as categorical and is not using foundation allowance amounts to supplement its required payments under the Headlee Amendment.
- Increasing funding for the Great Start Readiness Program by funding reimbursement at the same level as the target foundation allowance and increasing the income limits, which increases the number of families eligible to participate. These steps align with the goal of ultimately making preschool available to all in Michigan.
- Increasing funding for Section 31a/At-Risk programs and using an opportunity index to better weight funding based on need
- Revising Section 31d to provide universal free breakfast and lunch for the 2023/2024 fiscal year with the intention of continuing the program. The program is state funded and does not replace the federal Child Nutrition Cluster. The State is providing implementation guidance as to how the program works and how it interplays with the federal breakfast and lunch programs.
- Additional funding for and revisions to funding method for transportation services to include a formula based upon riders per square mile
- Additional one-time funding infusion for student mental health and school safety services
- One-time allocation for a student loan repayment program for districts to repay loans of employees who work directly with students
- Increasing allocation for contributions to the retirement system to reduce its long-term cost
- Intermediate school district (ISD) operations allocation increasing by 5 percent to mirror the increase in the foundation allowance

The State Aid Act amendments include many other initiatives. Some are policy changes, some are one-time funding initiatives, and others are for additional resources for current or expanded programming. A careful review by administration of the act and its components will be essential to ensure that all the elements impacting district operations are assessed and, if necessary, a district response is put in place.

- **Federal Resources:** Over the last several years, federal funding has been a significant theme related to school funding and school operations. Pandemic-related funding has assisted school districts in responding to the unique circumstances of COVID-19 and, in many cases, afforded districts the opportunity to fund specific one-time initiatives. As districts move into the 2023/2024 school year, many of the unique funding sources resulting from the pandemic have ended or will end shortly. The last major funding source is ARP ESSER III. It is funded as part of the Education Stabilization Fund and is scheduled to sunset in September 2024. For many districts, this last funding source is the largest. It also had the most restrictions attached to its operation. As a result, use of those funds through 2024 will require more careful planning and execution by the School District. Some of the funding may have been used by the School District to fund recurring costs of operations; therefore, it will be important for the School District to consider the budget impact this will have once these resources are no longer available. In short, districts must identify how these funds impacted recurring operations and plan now for if, or how, those operations will be funded once ESSER III funding has ended.

- **Looking Forward:** The May 2023 Consensus Revenue Estimating Conference estimates that the School Aid Fund will remain healthy when projecting out the financial picture over the next few years. As we look forward, one of the key questions is whether the State's economic engine will continue to be sufficient to fund initiatives taken in this budget cycle. Additionally, if there is a change in the political landscape in the next election cycle, the nature, type, focus, and level of resources available to public education could also change. Careful monitoring of these factors will be necessary to make reasonable budget assumptions moving into 2024 and beyond.

2023 Funding Implications for the School District

Entering the 2022/2023 fiscal year, the School Aid Fund and the General Fund showed improved financial health and more predictable revenue streams. The governor and Legislature were able to come to an agreement on the school aid package before the beginning of the School District's 2022/2023 fiscal year. The result was that the School District was able to estimate the financial inflows more accurately for 2022/2023 before the school year started. Further, with a continually improving financial picture, the State was able to pass a supplemental appropriation, providing additional resources for the 2023 fiscal year as well as some financial reserves for the School Aid Fund. Fiscal year 2023's funding process once again showcases the need for careful planning to ensure any new funding is carefully utilized. A few key elements impacting 2022/2023 include the following:

- **2022/2023 Foundation Allowance:** All school districts are at the target foundation allowance of \$9,150 except for the few hold harmless districts.
- **Pupil Membership Blend for 2022/2023:** Pupil count determinations use the 90 percent of the fall 2022 count and 10 percent of the spring 2022 count. The computed pupil count was used to determine the total foundation allowance paid to the School District.
- **MPSERS Cost for 2022/2023:** The basic structure continued, including cost support provided by the School Aid Fund. For 2023, the overall contribution rate increased to 45 percent of payroll from 43 percent, with the net cost to the School District continuing at up to approximately 28 percent. While the net cost to the School District is essentially the same as in 2022, the overall contribution rate continues to increase. By way of comparison, when Proposal A was adopted, the total contribution rate was 11 percent. The implication is that more resources are redirected from the funding of operations to the support of the retirement system funding requirement. The 2022/2023 amendments to the State Aid Act further increased investment in the retirement system, with the goal of reducing the overall cost of the program over time. The State's recurring funding support is provided in three separate sections of the State Aid Act: Sections 147a, 147c, and 147e. Total funding received by the School District was composed of \$186,432 in 147a(1), \$345,487 in 147a(2), \$2,696,084 in 147c(1), and \$79,593 in 147e.
- **One-time Retirement System Contribution:** With additional resources available in the School Aid Fund, in addition to the recurring funding discussed above, a one-time \$1 billion contribution was made to the MPSERS retirement system. This contribution was made with the goal of lowering the future cost, and ultimately the contribution requirements from school districts, of the retirement system. The contribution was provided ultimately to MPSERS via participating school districts. School districts received the funding as a Section 147c(2) categorical payment from the State and then were required to deposit the same amount with the retirement system. The amount allocated to the School District was \$1,570,167. Accounting rules require that the categorical payment be recorded as revenue and the contribution as an expenditure. The impact is that there will be an unusual, large, one-time event recorded as a revenue and an expenditure in the School District's June 30, 2023 financial statements. There was no impact to fund balance.

- **Special Education Services:** Beginning in the 2021/2022 fiscal year, the State increased the funding of its share of special education costs by 3 percent of those costs. In 2022/2023, that support continued, plus it reduced the amount of foundation allowance that is credited as payment against the State's required support. In 2023/2024, use of the foundation allowance to contribute to the State's support of special education was concluded, and the State's contribution to support special education is paid entirely from a categorical allocation. These changes in the funding formula will have the effect of providing more state support to cover the cost of special education operations. The implication to the School District will be that more funds will be freed up to support other general education activities. The actual amount of the shift varies by district and requires some analysis. Once determined, school districts will be better able to budget and plan for use of those funds.
- **New Initiatives for 2022/2023:** There were several new initiatives included in the 2022/2023 amendments to the State Aid Act. Since the revenue projections were well above expectations, there was room for funding most of the priorities from both branches of government. Many of the initiatives result from common themes, including the pandemic, mental health concerns of students and staff, addressing the teacher shortage, school security, continuing investment in preschool, vocational/career training, and beginning to focus on educational infrastructure investment. Many of these initiatives were carried forward and continued in the 2023/2024 amendments to the State Aid Act. These initiatives required assessment and planning by individual school districts. With new resources comes new responsibility to determine the most effective way to leverage these funds for the benefit of the students, staff, and the School District. The same challenges exist as districts assess the content of the 2023/2024 amendments to the State Aid Act.
- **Pupil Count Trends:** During the pandemic, most public schools across Michigan experienced a decline in enrollment. Statewide enrollment has historically been slightly under 1.5 million students. Prior to the pandemic, annual enrollment figures were declining annually at about 10,000 students per year. However, during the pandemic, statewide enrollment decreased in excess of 50,000 students. As part of the Consensus Revenue Estimating Conference process, total enrollment is tracked and estimated. A key consideration in the projections continues to be to what extent the 50,000 student reduction will recover. Current data suggests that some portion returned as the rate of decline slowed, but enrollment will not recover to pre-pandemic levels. While this data is important statewide, it is very important at the local district level. Since the foundation allowance is computed on a per pupil basis, a stable and predictable enrollment will have a substantial impact on the financial picture. As a practical example, on average, it takes about 10 students to fully fund a teacher position. As districts continue to operate in the post-pandemic period, continued focus on recruiting and retaining students and families will be essential to improving student enrollment.

Looking Forward to 2024 and Beyond

The May 2023 Consensus Revenue Estimating Conference provided a look into 2024, 2025, and 2026. There is a substantial surplus in 2023 to carry over to 2024, but the surplus is significantly reduced in 2024 with several one-time payments. However, 2025 is projected to return to a significant surplus once the one-time payments are removed from the analysis. The significant revenue influx and projected revenue levels expected through 2025 have provided an unusual opportunity for school funding in Michigan. This is especially significant since federal pandemic funding is nearing its end. The results of the May 2023 Consensus Revenue Estimating Conference suggest that the State will have significant resources to invest in public education funded through the School Aid Fund, as well as other programs funded through the State's General Fund. While optimism is high for the state budget, the two key matters that could negatively impact the financial picture are inflation and the potential for recession. The 5 percent increase in the 2023/2024 foundation mirrors the same increase in 2022/2023 and is at a higher rate than ever seen under Proposal A. However, inflation pressures, while improving, remain at higher levels and have a significant impact on operating costs for districts. Similarly, while the likelihood for a recession appears to be lowering, if it were to occur, it will likely negatively impact future revenue projections, limiting the potential to fund future school district operations. Balancing such factors when planning future budgets will be essential for sound financial management.

The strong fiscal outlook for the School Aid Fund comes as education-focused, pandemic-related federal funding is coming to a close. Many districts received a substantial federal ESSER III allocation and will need to conclude the use of these one-time funds by September 30, 2024. This period has been labeled the federal funding cliff. This is because, once these resources have concluded, the district will need to assess if other resources will be allocated to continue any programs or activities that were paid for using the pandemic-related funding. These funding factors place a high degree of need for school districts to carefully plan budgets and spending priorities. Choosing how best to manage needs and priorities will be a continuing challenge. Factors to consider as we look into the future include the following:

- The impact of a recession on school funding, if it were to occur
- How best to use the ESSER III allocation without negatively impacting future operations and what state resources may be used to offset any negative impact
- Staff retention and recruitment, including use of novel approaches, some of which are funded by state categoricals
- Continued efforts at attracting and retaining students to the School District
- Pupil count trends and projections for school districts and school buildings to better plan staffing, infrastructure, and operational needs
- Continuing commitment to address learning loss, including funding of programs once pandemic-related funding is concluded
- Planning for potentially expanded preschool services funded under an expanded GSRP
- Revising food service operations in light of the new state-funded free breakfast and lunch program
- Potential staffing cost increases
- Operating cost increases resulting from inflation
- Technology cost increases and access to technology learning tools
- Costs for school security and mental health services
- Identifying, recruiting, and retaining staff to provide mental health and school security services
- Cost trends for the retirement system and the extent to which state support is used from the School Aid Fund

The next Consensus Revenue Estimating Conference will occur in January 2024. As districts move into the 2023/2024 school year, they will need to carefully plan for how best to use the significant resources that have been provided during this unusual time in our school funding history.

Michigan School Meals

For the first time, beginning in the 2023/2024 school year, a free breakfast and lunch will be available to all students in Michigan schools. This program, initiated with the 2023/2024 amendments to the State Aid Act, provides state-funded meals to all students who do not qualify for a free meal under the National School Lunch and National School Breakfast programs. The Michigan Department of Education issued guidance for districts to apply for participation beginning with the 2023/2024 school year. Some key observations include the following:

- Participation is not automatic. Districts must apply using the 2024 Coordinated Application in the State's NexSys system.
- For a district to be eligible to participate, it must do the following:
 - Be a public school, charter school, or intermediate school district
 - Participate in the National School Lunch Program
 - Serve breakfast and lunch
 - Serve all meals at no cost to pre-K through 12th grade students
 - Adopt Community Eligibility Provision (CEP) to maximize federal reimbursement. Note that not all schools qualify for this provision under the federal program. If a district qualifies, the meals will be funded using that federal program, and the state program is not needed.
 - Collect relevant family income information
 - Write off all outstanding student negative balances
- The program is designed to work alongside and supplement the current federal National School Lunch and National School Breakfast programs and not replace them.
- Districts will need to track and claim meals served similar to what is done for the federal programs.
- As noted above, districts must eliminate negative student account balances. In doing so, the Food Service Fund is not allowed to absorb the write-off. That removal requires funding from sources outside the Food Service Fund. The MDE has developed guidance for how this should be accomplished.

During the pandemic, free breakfast and lunch were made available to essentially all students. The program was paid for with federal funds. During this period, schools experienced a significant increase in meals served. With this new initiative, the potential for high participation rates is likely. This will require districts to plan for the increased demand on food service operations, including staffing levels, timing of meals, cafeteria seating, menu planning, and food orders. Additionally, effective communication channels will be needed to inform students and families of the program and to gain the needed paperwork to document participation from a segment of the student body where such data has not been requested previously.

As with other initiatives included in the new school funding bill, careful planning will be essential for an effective rollout of the program.

Grants Management

Grants have always been a substantive area in school operations. Typical federal programs seen in most districts include Title I, Special Education, and Child Nutrition. These and other programs continue to be important and require significant skill, attention, and time to account for and adequately deploy those resources. With the advent of the pandemic, programs such as ESSER, GEER, and CRF have infused significant new federal resources into the School District. In addition, primarily through supplemental appropriations, the State has provided additional funding focused on pandemic relief. These events have significantly increased the workload, burden, and grants management risk across the School District. Some examples include the following:

- Superintendents and leadership team - Understanding what resources are available, what is required, how it will be measured, and how it will be staffed or equipped
- Board members - Setting policy in response to the pandemic and approving educational initiatives to respond to learning and operational needs
- Business office - Identifying, tracking, communicating, recording, and reporting on grant-related activities, when, in many cases, the rules and processes are unclear at the onset of the programmatic activity
- Staff - Delivering services in a pandemic-related environment
- Procurement - Identifying, initiating, acquiring, and delivering needed materials and equipment
- Information technology - Establishing and maintaining a safe, secure, and functional system so that learning is delivered and operations are maintained
- Support services - Transitioning from in-person connection to remote to identify and provide needed support services to students and staff
- Facilities - Installing upgrades, managing building access, cleaning, and PPE

Each of these areas has been significantly impacted by the new grants and the expanded grants management process. Clearly, the reach and implications of pandemic-related funding are extensive. With that reach comes a significant challenge for the School District to ensure that resources, processes, and controls are in place. As the School District moves into the 2024 fiscal year, we suggest performing a risk assessment of its key processes and controls. This assessment and related action items can help ensure the School District has the pieces in place for an effective and efficient response to the grants management challenges.

Budgeting Considerations

The pandemic will have a substantive impact on district budgeting considerations for years to come. This includes both state and federal funding sources. As the additional federal funding is expected to decrease in the coming years, it is imperative that the School District ensure it has sufficient operation funds to move forward.

As we have seen, funding from the School Aid Fund has varied widely over the last three years. Fortunately, School Aid Fund projections suggest funding stability through 2025. However, that stability presumes a continually improving financial picture for the State of Michigan. If assumptions do not hold, there is a risk for continued variability in school funding. Any variability would have a direct impact on funds made available for school operations.

Michigan Public School Employees' Retirement System (MPERS) - Update on the Plans' Net Pension/OPEB Liabilities

Similar to the State of Michigan, the MPERS plan has a September 30 year end. With the adoption of GASB Statement Nos. 68 and 75 several years ago, school districts have been reporting their share of the MPERS plan funded status in the government-wide financial statements of the School District.

At September 30, 2022, the pension portion of the MPERS plan had a net pension liability of approximately \$37.9 billion. This is an increase of approximately 57 percent from the reported amount of \$24.2 billion on September 30, 2021. One of the primary reasons for the increase in the net liability was net investment losses. The pension plan's annual investment rate of return was 27.2 percent for the year ended September 30, 2021, compared to an investment loss of 4.8 percent for the year ended September 30, 2022.

At September 30, 2022, the retiree health care portion (OPEB) of the MPERS plan had a net OPEB liability of approximately \$2.1 billion. This is an increase of approximately 40 percent from the reported amount of \$1.5 billion at September 30, 2021. The primary reason for the increase was a 27.2 percent annual investment return for the plan year ended September 30, 2021, as compared to an annual investment loss of 4.8 percent for the year ended September 30, 2022.

Fund Balance

The first year of the pandemic, more than ever, highlighted the importance of having adequate fund balance due to the uncertainty of the state budget and the impact on the foundation allowance with prorations that went into effect. Having sufficient fund balance will help to ensure the School District can continue to provide an adequate level of programming during periods of economic uncertainty.

The 2023/2024 school year will face many challenges that will have a direct effect on the School District's fund balance. The Consumer Price Index (CPI) continues to grow, which will put inflationary pressures on nearly all school districts. Couple that with the budgeting pressures faced with how to spend the COVID-19 relief funds, and business offices will have a lot to consider and plan for when projecting out fund balance for the upcoming school year.

During the 2022/2023 school year, the School District's General Fund revenue exceeded expenditures by approximately \$1.9 million. This resulted in increasing the General Fund fund balance to approximately \$7.9 million at June 30, 2023. 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, 2022 was approximately 20.30 percent of expenditures and outgoing transfers. Fund balance at the statewide average would approximately equal the School District's average operating costs for a 10-week period. The School District's fund balance percentage is 22.5 percent and equals approximately 12 weeks of operation.

Significant Changes in the Future to the GASB Financial Reporting Model

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

This project kicked off in August 2013. An exposure draft was issued in June 2020 titled "Financial Reporting Model Improvements." The exposure draft comment period ended during February 2021, and, as a firm, Plante & Moran, PLLC provided comments to the GASB on our thoughts of the proposed standards. The GASB's goal is to have final standards issued by March 2024.

Once adopted by the GASB, these new standards could 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 exposure drafts 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. Other proposed changes include requiring additional information in the MD&A and a variance column in the budget to actual statement.

While the exposure draft has not yet been revised, it should be noted that, during the June 2023 GASB board meeting, the board tentatively decided to remove all issues related to the reporting of governmental funds from the scope of this proposed new statement. If this change makes its way to the final standard, the scope of this pronouncement would be significantly reduced, and many of the aforementioned impacts of this standard would ultimately not be applicable. We will continue to monitor the status of this proposed new standard and work with your business office to ensure a seamless adoption once a final standard is issued.

A separate but somewhat related project is also ongoing. In June 2020, the GASB released its preliminary views titled "Revenue and Expense Recognition." The objective of this project is to develop a comprehensive, principles-based model that would establish categorization, recognition, and measurement guidance applicable to a wide range of revenue and expense transactions. When the new standard is issued and adopted, it could result in revenue and expense transactions being reported either earlier or later than they currently are in school district financial statements. The GASB's current work plan anticipates that this new standard could be issued during 2027.

Sinking Fund Legislation

The new legislation, which is effective August 6, 2023, amends previous sinking fund legislation to allow a school district to use its Sinking Fund to support certain transportation costs. Specifically, a sinking fund millage approved by voters after May 7, 2023 is now allowed to be used by school districts for the acquisition of student transportation vehicles and parts, supplies, and equipment used for the maintenance of student transportation vehicles. Funds may also be used for the acquisition of trucks and vans registered under the Michigan vehicle code, 1949 PA 300, MCL 257.1 to 257.923, and used to carry parts, equipment, and personnel for or in the maintenance of school buildings or for the acquisition of parts, supplies, and equipment used to maintain those trucks and vans.

Sinking funds authorized (1) prior to March 29, 2017; (2) between March 29, 2017 and May 7, 2023; and (3) after May 7, 2023 should be accounted for separately in the audited financial statements. Each separate fund should have its own balance sheet and statement of revenue, expenditures, and changes in fund balance for the fiscal year. The previous sinking fund language regarding the use of funds for purchase of real estate, buildings, building improvements, and technology was not amended, as those are still allowable uses of sinking funds approved prior to this amendment. A school district that levies a Sinking Fund must have an independent audit of its Sinking Fund conducted annually, including a review of the uses of the Sinking Fund.

GASB Statement No. 101 - Compensated Absences

School districts have historically been required to account for certain types of accumulated employee leave time in their financial statements; however, the existing standards were written many years ago, and significant changes have occurred since then related to the various types of compensated absences that exist today. The GASB recently adopted a new pronouncement that addresses the accounting for compensated absences, which include vacation, sick, and other paid leave time. Under GASB 101, the School District will record a compensated absence liability in the full accrual financial statements for leave time that (1) is attributable to services already rendered, (2) accumulates, and (3) is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means. The liability is to be recorded each reporting period, in the full accrual statements only, using each employee's pay rate as of the date of the financial statements. The new standard also removes the historic requirement related to disclosing the gross additions and reductions to the compensated absence liability in the financial statements, and, instead, a school district can disclose just the net change during the year. The new standard also removes the previous requirement to disclose which funds are responsible for liquidating compensated absence liabilities as they are paid.

This statement is effective for the School District's year ending June 30, 2025. The School District should begin to review the requirements of this new pronouncement, as it may have an impact on how the School District accounts for its compensated absence liability.

Michigan Department of Treasury - Numbered Letter 2023-1: Bonded Construction Fund and Sinking Fund Reporting Changes

School districts are currently required to comply with the Michigan Department of Treasury's (the "Treasury") Bulletin 7 and Numbered Letter 2004-4 as they relate to the audit and reporting requirements of a bond-funded construction fund and sinking funds. During fiscal year 2023/2024, the Treasury will release Numbered Letter 2023-1, which supersedes Bulletin 7 and Numbered Letter 2004-4. Plante & Moran, PLLC participated in reviewing and providing feedback on the exposure draft. The new guidance goes into effect for sinking fund and bond compliance audits that are required to be reported for the June 30, 2024 reporting period. School districts will need to review these changes in order to ensure they are in compliance with these new audit and reporting rules. Some of the primary changes are as follows:

- School districts will no longer submit financial information upon bond closeout to the Department of Treasury. Rather, the Treasury will gather the data it needs from the annual audited financial statements that are already being submitted to the Department of Education. School districts will, however, need to submit an annual transmittal letter to the Treasury that includes notification of status of the bond-funded Capital Projects Fund.
- The determination of the completion date has been simplified. The completion date will always be the June 30 immediately following the later of (1) the certificate of substantial completion or (2) 95 percent of the bond proceeds being spent. It will then be expected that the auditor completes its work in conjunction with the submission of the School District's audited financial statements.
- For bonds with multiple series, if the series being audited are for projects that were all approved by the electors at the same time, the audit closeout reporting can occur at the end of the final bond issue of the series. Approval is no longer required from the Treasury when taking this approach.
- The activity associated with any sinking fund levies renewed after May 7, 2023 should be accounted for in a capital projects fund that is separate from any remaining fund balance associated with levies authorized prior to May 7, 2023. This could potentially result in a situation where the School District may need to create a separate capital projects fund to account for activity associated with levies authorized after May 7, 2023 if the School District has not yet spent all of the fund balance associated with levies authorized prior to May 7, 2023.

Bond Investment Earnings - Arbitrage Considerations

Arbitrage is not a new topic; however, in the current environment of raising interest rates, it is a topic that has recently received more attention. So, what is arbitrage? To summarize, arbitrage is the difference between the interest expense paid by the bond debt issuer (school district) and the earnings on the invested bond proceeds. School districts are tax-exempt organizations and, therefore, subject to federal arbitrage compliance rules. As a result, the School District may be limited to the amount of investment earnings that it is allowed to retain. The arbitrage calculations are quite complex, and the School District should work with its bond advisor to ensure this computation is completed on a recurring basis. Generally, at the five-year anniversary of the original bond sale, a computation is also completed and used to report to the federal government any investment earnings in excess of what is allowed to be retained and is generally due back to the federal government (Internal Revenue Service). The annual arbitrage calculations are also utilized to determine if the School District should report an arbitrage liability at June 30 in the full accrual set of financial statements.

Inflation Reduction Act (IRA)

The Inflation Reduction Act was signed into law on August 16, 2022. Among other items, the IRA allocated \$369 billion over the next 10 years to fund energy and climate projects in an attempt to reduce emissions by approximately 40 percent by 2030. One of the components of the IRA is the availability of a direct-payment option, in lieu of a nonrefundable tax credit, to tax-exempt entities, including governmental entities like the School District, to reimburse the entity for a portion of the cost of qualifying capital improvements. The IRA provides a new opportunity to tax-exempt entities to reduce the cost of eligible projects while also enhancing an organization's sustainability efforts and reducing carbon footprint. For school districts, capital expenditures that may qualify include the purchase of certain electric vehicles and the installation of equipment that generates renewable energy (such as solar panels). As many of the program details are still being worked out, we will continue to keep the School District informed regarding future developments.

Understanding and Managing Potential Threats to Your Data

Education continues to be one of the top targets for ransomware attacks. Legislation called the K-12 Cybersecurity Act of 2021 was signed into law in October 2021 in recognition of the significant risk to school districts.

Working remotely during the pandemic has led to a global rise in cyberattacks. School districts quickly shifted to remote learning; in so doing, security controls may have been relaxed. 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 employees and the public.

When it comes to cybersecurity, the human element is still the weakest link and most targeted, as passwords like "August2023" can be easily guessed, and emails continue to trick people into clicking links and opening attachments. Information security is a district-wide issue, not just an IT department responsibility, requiring a combination of people, processes, and technology to effectively secure 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 it. Key questions to ask include the following:

- Are our teachers and staff appropriately aware of phishing and other cyberattacks?
- Do you know where all of the various data resides in the school district? Are employees storing district data with personally identifiable information (PII) or data that is subject to FERPA on file-sharing sites or flash drives? Is the data being emailed to personal accounts?
- How secure is your data with at least a portion of your students and teachers working remotely?

Having an external party do an assessment on vulnerabilities may provide additional support to the IT team for initiatives it is implementing, providing peace of mind for the board that vulnerabilities have been assessed and addressed and allowing for 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.

ERP (Financial and HR Systems)

School districts rely heavily on their enterprise resource planning (ERP) system, which typically includes finance, payroll, human resources, and ancillary applications like applicant tracking and time and attendance. There have been several changes in the K-12 ERP marketplace, including the sale of SchoolFinance to Linq and Skyward's marketing of its newer financial system (Qmlative) in K-12 in Michigan.

In addition to these changes, many school districts either have moved or are moving to a hosted solution rather than maintaining the system in the districts' data centers. These systems can be hosted by either the vendor (e.g., Tyler Technologies or PowerSchool), a third party that the vendor contracts (e.g., Skyward), or an ISD.

We have assisted numerous districts in maximizing the impact of their ERP and would be happy to brainstorm solutions with you.

Operations Review and Controls Assessment

Roles and responsibilities have changed for many administrative and operations staff over the past few years due to increased reporting requirements, the pandemic, and reductions in staff count. Staff sizes have been reduced in many districts, while demands for services, technology, 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, and 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, human resources, and facilities and operations 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.

IT Assessment and Planning

Much of teaching and learning today is predicated on reliable, robust, and secure technology, as well as an effective IT support function. The pandemic was very disruptive, including from a technology perspective. In the span of a few months, the use of technology in teaching and learning shifted dramatically, with greater mobility, learning on demand, and an increase in 1-to-1 initiatives. Cybersecurity threats increased at the same time support requirements expanded. Even though the majority of students have returned to face-to-face learning, the School District's IT support requirements have changed.

This may be a good time to consider an IT assessment that reviews information technology from people, process, and technical perspectives. Areas of focus include governance, IT staff and organization, use of external service providers, service delivery, network and device management and monitoring, cybersecurity policies and procedures, and the technology itself. An IT assessment provides an objective evaluation of current operations, with an actionable plan for improvements and enhancements. Many districts use the results of an IT assessment as their action plan for the next two to three years. We would be happy to discuss how we can help.

Taking Advantage of Data Analytics within K-12 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 important to develop a deeper understanding of individual student, school, and district-wide 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, processes, technology, and data governance is the first step toward preparing a data-driven strategy.

Planning for the Future with Pupil Enrollment Projections

In the course of our review, we noted that the School District is assessing its capital needs in preparation for planning a potential bond or sinking fund. Because districts rely heavily on student enrollment to determine funding, define future academic offerings, and make facility decisions, we recommend the School District conduct a pupil enrollment projection annually. Detailed projections allow your school board to create financial models and understand current and projected facility needs to accommodate the student population.

To the extent it would be helpful, we would be happy to introduce Plante & Moran, PLLC's real estate consulting team, Plante Moran Realpoint (formerly Plante Moran Cresa), one of four authorized enrollment projection service providers in the state of Michigan. The team has developed a projection model that has proven to be more than 99 percent accurate in helping districts predict enrollment for years into the future. It can conduct projections for the entire district or focus solely on specific buildings, grades, or areas.

Building Utilization and Facility Assessments

Enrollment changes could be affecting the utilization of the School District's facilities. We suggest you consider conducting a utilization study and facility assessment to analyze your facilities well before planning an investment in renovations or new construction.

To the extent it would be helpful, Plante Moran Realpoint (formerly Plante Moran Cresa), an affiliate of Plante & Moran, PLLC, can help you conduct an assessment based on your current enrollment and curriculum needs to help you locate areas of potential changing enrollment and understand its impact on facility usage. Plante Moran Realpoint's assessments involve a complete review and report of every district building related to the following:

- Capital requirements for upgrades, renovations, upkeep, and improvements
- Specific identification and timeline for replacement of exterior components (i.e., roofing, windows, site improvements, etc.); interior components (i.e., flooring, doors, hardware, ceilings, etc.); and mechanical, electrical, and plumbing systems
- Summary of the current use of the facility (for classrooms, support rooms, storage, etc.)
- Summary of current and future enrollment needs by building
- Recommendations for best utilizing the existing space and future plans for programming