

Lapeer Community Schools of Lapeer County

**Report to the Board of Education
Year Ended June 30, 2016**

To the Board of Education
Lapeer Community Schools
of Lapeer County

We have recently completed our audit of the basic financial statements of Lapeer Community Schools of Lapeer County (the "School District") as of and for the year ended June 30, 2016. In addition to our audit report, we are providing the following results of the audit, other recommendations and passed adjustments, and informational items which impact the School District:

	<u>Page</u>
Results of the Audit	1-4
Other Recommendations and Passed Adjustments	5-7
Informational Items	8-20

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

Plante & Moran, PLLC

October 21, 2016

Results of the Audit

October 21, 2016

To the Board of Education
Lapeer Community Schools
of Lapeer County

We have audited the financial statements of Lapeer Community Schools of Lapeer County (the "School District") as of and for the year ended June 30, 2016 and have issued our report thereon dated October 21, 2016. 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 15, 2016, 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 21, 2016 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 September 2, 2016.

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 I to the financial statements. As discussed in Note I to the basic financial statements, the School District adopted Governmental Accounting Standards Board (GASB) Statements No. 72 and No. 79.

We noted no transactions entered into by the School District during the year for which there is a lack of authoritative guidance or consensus. We noted no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was the School District's share of the MPSERS pension plan net pension liability recorded on the government-wide statements for the implementation of GASB Statement No. 68. The School District's estimate as of June 30, 2016 is \$75,884,606 and is based on data received from the Office of Retirement Services. We evaluated the key factors and assumptions used to develop the MPSERS pension plan net pension liability in determining that it is reasonable in relation to the financial statements taken as a whole.

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

Difficulties Encountered in Performing the Audit

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

Disagreements with Management

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management.

The attached schedule summarizes uncorrected misstatements of the financial statements which were requested to be recorded. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

Significant Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the School District, and business plans and strategies that may affect the risks of material misstatement with management each year prior to our retention as the School District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition of our retention.

As required by 2 CFR Part 200, we have also completed an audit of the federal programs administered by the School District. The results of that audit are provided to the Board of Education in our report on compliance with requirements applicable to each major program and on internal control over compliance in accordance with 2 CFR Part 200 dated October 21, 2016.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 21, 2016.


Management Consultations with Other Independent Accountants

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

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

Very truly yours,

Plante & Moran, PLLC



Eric V. Formberg

Other Recommendations and Passed Adjustments

Lapeer Community Schools of Lapeer County

Other Recommendations and Passed Adjustments

Finalizing Year-end Accruals

During our audit, it was noted that as a part of the year-end review, certain accrual items and adjustments were not identified. We discussed the process for finalizing amounts with the School District. The School District is developing a more formalized and documented review of accruals to their current process to aid in the closing process and throughout the year.

Child Nutrition - Review of Submitted Free/Reduced Lunch Applications

Upon review of free/reduced lunch eligibility applications selected for testing in the single audit, it was noted that the applications were not effectively reviewed. This resulted in unidentified incompletions in some of the applications. It is recommended that free/reduced lunch eligibility applications be reviewed for completeness and consistency upon submission, and the School District has begun the process of modifying its approach.

Administrative Technology Upgrade

As we understand, the School District is in the process of upgrading its administrative technology system. We would like to commend the School District for its investment in the upgraded system and its support of the transition to this more user friendly and robust way of analyzing data.

Planning for the Future

While there was an increase in General Fund fund balance in the current year, it was as a result of accrual reversals and corrections. The School District operations remain at break even, just over the Early Warning Legislation 5 percent of fund balance over revenue warning indicator. Student declines are projected, which will lead to a decline in revenue. Budget assumptions for the year were fitting with the results, and the student loss aligns with the projected revenue loss. We urge the School District to focus not just on sustainability, but on striving to further the School District from the negative indicators that the State Treasury is looking out for. Any indicators in decline, even in budgets, are being closely scrutinized.

Lapeer Community Schools of Lapeer County

Other Recommendations and Passed Adjustments (Continued)

Client: Lapeer Community Schools of Lapeer County
 Opinion Unit: Governmental Activities
 Y/E: 6/30/2016

SUMMARY OF UNRECORDED POSSIBLE ADJUSTMENTS

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

Ref. #	Description of Misstatement	Current Assets	Long-term Assets	Current Liabilities	Long-term Liabilities	Equity	Revenue	Expenses	Net Income Statement Impact
FACTUAL MISSTATEMENTS:									
A1	Capital leases were entered into during the year for 12 copiers; additionally, capital leases for 14 copiers were entered into in the prior year. As the balance of the leases is immaterial, the School District concluded to treat them as operating leases and related disclosures are excluded from the financial statements		\$ 88,478		\$ 88,478				
A2									
JUDGMENTAL ADJUSTMENTS:									
B1									
B2									
PROJECTED ADJUSTMENTS									
C1									
C2									
	Total	\$ -	\$ 88,478	\$ -	\$ 88,478	\$ -	\$ -	\$ -	\$ -

PASSED DISCLOSURES

D1
D2

Client: Lapeer Community Schools of Lapeer County
 Opinion Unit: General Fund
 Y/E: 6/30/2016

SUMMARY OF UNRECORDED POSSIBLE ADJUSTMENTS

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

Ref. #	Description of Misstatement	Current Assets	Long-term Assets	Current Liabilities	Long-term Liabilities	Equity	Revenue	Expenses	Net Income Statement Impact
FACTUAL MISSTATEMENTS:									
A1	Capital leases were entered into during the year for 12 copiers, as the balance of the copiers is immaterial, the School District concluded to treat them as operating leases.						\$ 80,940	\$ 80,940	
A2									
JUDGMENTAL ADJUSTMENTS:									
B1									
B2									
PROJECTED ADJUSTMENTS									
C1									
C2									
	Total	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 80,940	\$ 80,940	\$ -

PASSED DISCLOSURES

D1
D2

Informational Items

Lapeer Community Schools of Lapeer County

Informational Items

State Aid Funding

State Aid and the Foundation Allowance

The fiscal year ended June 30, 2016 saw continued focus on several recurring themes in school funding by the State of Michigan: limited increases in the foundation allowance; additional funding boosts for districts at the minimum foundation; and additional resources dedicated to assisting with funding the districts' retirement/postretirement healthcare obligation (MPSERS). One significant change was the elimination of resources provided for best practice and student performance. While districts experienced an increase in the foundation, the increases still have not replaced the \$470 per pupil cut experienced in 2011-2012 for many districts.

2015-2016 Foundation: For the 2015-2016 fiscal year, the base foundation increased by \$70, from \$8,099 to \$8,169. The State continued its use of the "2X formula" providing districts at the minimum foundation with an increase of \$140 per pupil. The School District's foundation allowance was increased to \$7,391. The foundation includes a "roll in" of the 2014-2015 equity payment for eligible districts, including Lapeer. For comparison purposes, the School District's foundation prior to the \$470 cut was \$7,316, meaning the current foundation is only \$75 per pupil above the 2011 foundation allowance. In the 2015-2016 State Aid Act, a minimum funding provision continued (Section 20f). This section recognizes that the funding shift toward paying the growing MPSERS expense could significantly harm some districts. Just as in 2015-2016, this categorical guarantees at least a \$25 per pupil increase after giving account to the funding changes. For many districts, the increase in the per pupil foundation was significantly offset by the elimination of Best Practice and Performance funding. The School District's net increase exceeded the \$25 minimum and no additional funding was provided under this section. This provision continues for 2016-2017.

2016-2017 Foundation: For the 2016-2017 fiscal year, the base foundation increases by \$60, from \$8,169 to \$8,229. Additionally, using the "2X formula", the minimum foundation allowance increases by \$120 per pupil to \$7,511. No equity payments are provided in 2016-2017. Based on these changes, the School District will receive a \$120 increase in its foundation allowance, representing an increase of 1.6 percent.

Pupil Membership Blend for 2016-2017: There was much debate on what counts should be used and how they should be weighted. Ultimately the decision was to not change the method for 2016-2017. 2016-2017 funding will be based on 90 percent of the Fall 2016 count and 10 percent of the February 2016 count. As a result, districts should be able to better estimate expected per pupil revenue during the fiscal year.

Lapeer Community Schools of Lapeer County

Informational Items (Continued)

MPSERS Cost Support: The contribution rate the School District is required to pay continues to rise, though the growth rate has slowed from 2015-2016. The School District has no ability to influence the rate and no choice regarding its participation in the program. Recognizing that the costs are increasing under the current system, the 2015-2016 State Aid Act continued to include funding to help pay for some of the increased cost. The categorical aid is formula driven using the School District's MPSERS payroll participation data. This funding is provided in two separate sections of the State Aid Act, 147a and 147c. The School District received a total of \$368,901 of 147a and \$2,979,521 of 147c categorical aid to help offset the impact of the increase in the retirement costs. The 2016-2017 State Aid Act continues this MPSERS cost support categorical. The school district Section 147c was designed to fund approximately 10 percent of covered payroll and does not increase school district resources. Instead, the funding is recognized as revenue and then returned directly to the retirement system. In general terms, this means that the total cost of the retirement system contributions in 2015-2016, representing approximately 36 percent of covered payroll, is recognized as an expenditure in the School District's financial statements, along with related revenue that was previously considered state support to the system. The net effect is that the School District is responsible for an approximate 26 percent contribution to the retirement system. The School District budgeted for additional state revenue and additional retirement expenditures in order to accommodate this funding mechanism, but may encounter some budget variances due to the fact the state revenue provided is based on prior year school district payroll information.

This retirement funding approach will continue into 2016-2017; the net effect of all these changes for 2016-2017 is that the School District's net out-of-pocket contribution will be determined by the Office of Retirement Services to be 24.94 percent, and the total cost of the retirement system will have grown to 36.64 percent.

Other State Aid Act Changes Impacting 2016-2017

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

Days and Hours - For 2016-2017, the minimum days requirement increases to 180. The hours requirement is maintained at 1,098.

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

Enrollment in Virtual Courses - Numerous changes were made to program requirements by prescribing policies and procedures for districts enrolling students in virtual courses, including allowing districts to deny enrollment in an online course if a pupil is in kindergarten through fifth grade.

MiSTEM Programs - Language was included allocating funds for the purpose of funding Michigan science, technology, engineering, and math (MiSTEM) based on recommendations of the MiSTEM advisory council, with some funds earmarked for specific purposes. If the council is unable to make specific funding recommendations by June 1, 2016, the department is directed to distribute the funds on a competitive grant basis.

Lapeer Community Schools of Lapeer County

Informational Items (Continued)

At-risk Funding (31a) - Funding levels did not increase in 2016-2017; the changes made previously are retained and the program has not been expanded to all districts. Currently, hold harmless districts are excluded from participation in the at-risk program.

MPSERS Reform and Future Contribution Rates

Over the past few years, the Michigan legislature enacted several reforms designed to curb the rising contribution rates and perpetual under-funded situation of the Michigan Public Schools Employees Retirement System (MPSERS). These reforms included early retirement incentives, employee funding of a portion of retiree health costs, a tiered rate and benefit structure for employees hired after July 1, 2010, and certain other provisions. These provisions were designed to avert a long-term financial crisis with the plan. The impact of investment declines during 2008 and 2009, coupled with a shrinking base of contributing active lives funding an ever-increasing number of retirees, continue to result in rising costs of sustaining the MPSERS program.

The State Aid Bills continue to contain provisions designed to defray a portion of these costs. Since 2011, money continues to be set aside from the School Aid Fund (SAF) for one-time allocations that districts use to offset their annual retirement contributions (147a). Since 2012-2013, districts continue to receive Section 147c MPSERS UAAL Rate Stabilization Payment Categorical. In 2014-2015, an additional MPSERS Early Retirement Incentive Extra Payment (147d) was appropriated in the State Aid Bill for \$108 million. However, this amount was reduced to \$19.6 million and districts only received this amount once in the November school aid payment.

The 2015-2016 State Aid Bill appropriates \$100 million to be set aside from the School Aid Fund for continued funding through Section 147a, and provides no additional funding for MPSERS Early Retirement Incentive Extra Payment (Section 147d). Districts will continue to receive Section 147c MPSERS UAAL Rate Stabilization Payments. The impact of this funding is to provide districts with directed resources to help pay for a continually increasing retirement contribution. The gross contribution, before any support from the State, is approximately 36 percent of payroll for 2015-2016. After the various funding offsets, the district out-of-pocket contribution is just under 26 percent of covered payroll.

Public Act 300, signed by the governor in September 2012, created certain caps on the employer contribution rate, created retirement plan alternatives which could modify the rate, increased employee contributions, provided for future employees to receive defined contribution instead of the current defined benefit for health care, and began prefunding healthcare benefits from a pay-as-you-go method to a combination of employee contributions, employer contributions, and state funding. The capped elements of the overall rate will mean that the SAF will be responsible to fund any unmet required contributions determined by the actuaries. A concern is that the state funding needed to keep districts' out-of-pocket rates down may limit the ability for the SAF to provide any increases in the foundation allowance and other categoricals. This has been, and will continue to be, a key factor to watch over the upcoming years. The overall rate has increased from 24.79 percent for the 2013-2014 fiscal year to 25.78 percent of covered payroll for 2014-2015 and 2015-2016. This .99 percentage point increase represents an actual increase of 4.0 percent.

Legal challenges related to the 3 percent contribution from employees have been ongoing. One case was resolved in 2015 determining that the 3 percent contributions since 2012 were allowable. No decision has been made by the courts related to the 3 percent employee contributions from 2010 to 2012. The decision should help in stabilizing future contribution rates required by the School District.

Lapeer Community Schools of Lapeer County

Informational Items (Continued)

For the School District, the “out-of-pocket” contribution rate of 25.78 percent for 2015-2016 represents approximately \$4,995,000 in total pension costs and retirement healthcare costs, or \$943 per pupil. We will continue to keep you informed as the changes to the retirement system unfold.

Early Warning Legislation

“Early Warning Legislation”, a 10-bill package of bills, was signed in 2015. This legislation is aimed at identifying districts that may be showing signs of fiscal distress, creates a system of reporting this situation sooner than in the past, and requires those districts deemed to be in distress to remit more frequent financial data to the Treasury. The entire Early Warning System is under the supervision of the Treasury and resources have been allocated at the state level for more resources to monitor and assist local districts and charter schools.

The first item to take effect was the identification of those districts and charter schools whose total General Fund balance was less than 5 percent of General Fund revenue in each of the last two years (fiscal 2014 and 2015). The definition of revenue for purposes of this test focuses on General Fund unrestricted revenue. Districts that met this criteria were required to remit the budgetary assumption and expenditure per-pupil information to CEPI as the first step in the process. For 2016, this information was due by July 7, 2016, requiring affected districts to compute certain information only one week after their fiscal year ends.

Once remitted, the state treasurer, through the Office of School Review and Fiscal Accountability (OSRFA), may conclude that the potential for fiscal stress may exist. At that time, the district may conclude to contract with the ISD (or the authorizing body for charter schools) to review the district’s financial records and offer recommendations to avoid a deficit. The review would need to be concluded within 90 days of entering into the contract, and requires quarterly reporting to the Treasury on the status of implementation of the recommendations. As of July 2016, there are 18 school districts identified as being in potential fiscal stress.

In their oversight role, OSRFA has applied a fiscal projection model to historical Financial Information Database (FID) data. In February 2016, this model identified 75 school districts as having a projected deficit within the current fiscal year or the following two school fiscal years. The projection model incorporates four key financial indicators, which are enrollment, revenue, expenditure, and fund balance. These school districts were sent a communication to determine if a corrective action plan had been implemented, or if there was an explanation for a decrease in General Fund balance. OSRFA reviewed each school district’s response and financial data to determine whether potential fiscal stress existed in the school district. It is expected this tool, and other means, will be used annually as part of their oversight role.

For the years ended June 30, 2016 and 2015, the General Fund balance was 6.0 percent and 5.0 percent of unrestricted General Fund revenue, respectively. The School District should continue to monitor this figure closely so any required reporting can be done in accordance with the required timelines.

Lapeer Community Schools of Lapeer County

Informational Items (Continued)

Michigan Education Finance Study

The State of Michigan, through the Department of Treasury, contracted the firm APA Consultants, to perform a comprehensive analysis of financial and performance data of Michigan's public school districts. Under legislation passed in 2015 amending the School Code (380.1281a), the information gleaned from the study, including the ultimate recommendations provided by the consultants, provides state policy and lawmakers with information necessary to assist in improving overall performance results through assessment of funding adequacy and by assessing the equity of the public education funding system.

The two primary areas of the finance study included:

- 1) An examination of revenue and expenditure data from Michigan districts that have testing level performance above average on statewide proficiency assessments. There were 186 (of 541) districts identified as meeting an "above average" standard set in the study, and 58 districts meeting one additional performance standard (high absolute performance, growth, or special populations) that were deemed "successful districts" as defined in the study. The data surrounding the "successful districts" were specifically analyzed.
- 2) An evaluation of resources available to districts for noninstructional spending (such as food service, transportation, operations, community service, and adult education) by region

In addition, the study covered analysis of capital and debt service expenditures and examined revenue and expenditures of districts deemed "exemplary" as defined in the study. The report also included the results of an equity study, ultimately stating that Michigan's current school finance system was found to be "moderately inequitable."

Recommendations from the study include:

- Recognition of a base cost (cost of serving student with no special needs) of \$8,667 per student of funding in order for districts to meet state performance standards as well as additional funding recommendations for at-risk and English Language Learner (ELL) students
- Creating a system to improve tracking of actual special education expenditures
- Not setting benchmarks by region for non-instructional and capital or debt service expenditures at this time, but a recommendation to implement a system to collect these data if desired to set benchmarks in the future
- Creating a more equitable funding system

The complete study, totaling 224 pages, can be found online at

https://www.michigan.gov/documents/budget/Michigan_Education_Finance_Study_527806_7.pdf

The data in the study are extensive and can assist districts when benchmarking their financial and educational results. The governor's office has stated this information will be utilized by the new 21st Century Education Commission. However, at this time, it is unclear if or how the information in the study will impact the future of school funding in Michigan.

Lapeer Community Schools of Lapeer County

Informational Items (Continued)

Fund Balance

During the 2015/2016 fiscal year, the School District faced continued financial challenges due to declining enrollment and inflationary cost pressures. The outlook for 2016-2017 and beyond suggests future funding increases for operations will not be significant. This continues to put substantial pressure on the School District's operating budgets and fund equity.

During the 2015-2016 school year, the School District's General Fund revenue exceeded expenditures by approximately \$466,000. This resulted in an increase to the General Fund equity to approximately \$2.9 million at June 30, 2016, of which \$1.1 million is budgeted to be used in 2016-2017 and approximately \$1.5 million was classified as unassigned. We feel that it is important for the School District to maintain its fund equity at an appropriate level. The benefit to the School District of maintaining appropriate fund equity is the ability to meet unforeseen circumstances, like the implementation of State Aid proration, without significantly affecting the level of programs for the year. This gives the School District time to work out financial changes without the need for sudden or drastic reactions to adverse circumstances. The need for fund equity will continue to be important due to the funding caps imposed by school finance reform, increasing retirement and healthcare costs, other cost pressures the School District is facing and cash flow needs due to the fact about 18 percent of the School District's state aid is received after the school year has ended, as well as concerns over the allocation of resources within the School Aid Fund in the future, and the fact that the State is increasing its monitoring of each school district's financial health, including implications from the Early Warning requirements.

Fund balance goals are often stated in terms of a percentage of total expenditures. As a point of reference, the statewide average for school districts at June 30, 2015 (excluding Detroit) is approximately 10.06 percent of expenditures. Fund equity of 5.5 percent of expenditures would approximately equal the School District's average accounts payable and payroll for a three-week period, while 11 percent would approximately equal six weeks. The School District's fund equity percentage is 6.1 percent and equals approximately 3.1 weeks of operation.

The current fund balance policy proscribes a minimum fund balance at 10 percent of the year's expenditures in the General Fund. Clearly, the School District will continue to face difficult budget challenges in 2016-2017. Given the continued uncertainties with state funding and lack of significant growth in per pupil school aid funding, budget planning and fund balance management will continue to be essential elements for the School District's success.

New Rules Governing Management of Federal Programs

In December 2013, the Office of Management and Budget (OMB) issued long-awaited reforms to the compliance requirements that must be followed by non-federal entities receiving federal funding. The changes created from these reforms are currently effective and all school districts receiving federal dollars will need to continue to build an understanding of the changes and continue to update internal procedures, processes, and controls as necessary to comply with the applicable requirements.

Lapeer Community Schools of Lapeer County

Informational Items (Continued)

These reforms impact three key areas of federal grants management:

1. Audit Requirements - Beginning with the fiscal year ending June 30, 2016 for Michigan schools, the threshold for a federal awards audit requirement increases from \$500,000 in annual federal spending to \$750,000. There have also been changes to the criteria for qualifying as a low-risk auditee and modifications in the methodology required to determine which programs need to be tested as major. This year's single audit has incorporated these changes, impacting programs selected for testing, audit tests, and the single audit report.

The School District has historically been above the new \$750,000 threshold. Monitoring of federal program expenditures will be important to ensure compliance with the audit requirement each year.

2. Cost Principles - The grant reforms related to cost principles went into effect for new or significantly modified grant awards issued on or after December 26, 2014. Under the new guidance, there have been significant updates in the areas of allowable cost and time and effort reporting that have impacted Michigan school districts.
3. Administrative Requirements - Also effective for new awards or funding increases on or after December 26, 2014, non-federal entities receiving federal funding must adhere to new rules related to administering federal awards. Most notably, these requirements impact the School District's procurement systems, cash management, monitoring of subrecipients, and maintenance of written policies and procedures. The MDE has indicated that failure to adhere to these rules could result in the disqualification for participation in federal programs through the MDE. The MDE has issued its initial requirements and some may be more stringent than those required under federal regulation, which focuses on key controls versus the overall process. The School District must monitor MDE guidance, when issued, to ensure that district grants management is in conformance with related requirements.

These revisions are the most significant changes to occur to federal grants management in recent history. The implications of the Uniform Guidance are extensive and impact several areas of organizations receiving federal funding. The School District's business office, grants managers, and funding agencies should already be familiar with these changes as many of the requirements impacted the 2016 fiscal year. To ensure that the School District remains in compliance, we recommend the utilization of various resources to stay up to date with changes impacting both current and future fiscal periods.

Plante & Moran, PLLC has provided several training sessions for school districts on the new requirements and our school district grant experts have been working closely with the Michigan Department of Education regarding these changes. We are always available to assist the School District's staff in understanding the impact of these changes. To assist districts in increasing their understanding of the changes, we have provided two webinars on the grants management changes which are archived and available at no charge on our website. In addition, the Michigan Department of Education has recently issued several documents providing guidance on the current and continued implementation of the Uniform Guidance standards.

Lapeer Community Schools of Lapeer County

Informational Items (Continued)

Written Procedures for Grants - Required for District Federal Grant Participation

As part of your single audit annually, the auditors are required to assess the written procedures that exist related to the specific compliance requirements for the federal programs that are selected for testing. Effective December 26, 2014, the Federal Uniform Guidance outlines new requirements. It is important for the School District to be aware of the comprehensive list of required written (board) policies and (administrative) procedures required for federal grant participation. These requirements are described in 2 CFR Part 200 and include the following:

- Written Cash Management Procedures [§200.302(b)(6)]: To implement the requirements of §200.305 Payment
- Written Allowability Procedures [§200.302(b)(7)]: To determine the allowability of costs in accordance with Subpart E- Cost Principles
- Written Travel Policy [§200.474(b)]: To ensure costs incurred by employees for travel are reasonable and allowable
- Written Conflict of Interest Policy [§200.318(c)]*: To maintain standards of conduct covering conflicts of interest and governing the actions of its employees engaged in the selection, award, and administration of contracts
- Written Procurement Procedures [§200.319(c)]*: To ensure that all solicitations include the following requirements:
 - i. Incorporate clear and accurate descripts of technical requirements for the material product or service to be procured
 - ii. Identify all requirements which must be fulfilled
 - iii. Ensure that all prequalified lists of persons, firms, or products which are used in acquiring goods and services are current and include enough qualified sources to ensure maximum open and free competition
- Written Procedures for Conducting Technical Evaluations of Proposals and Selecting Participants [§200.320(d)(3)]*: To maintain a method for evaluation proposals received

*In the Federal Register published on September 10, 2015 (Vol. 80, No. 175), the Procurement Procures noted above were formally delayed. There is a two-year grace period for the implementation of the procurement procures in 2 CFR 200.317 through 200.326. Therefore, the School District is not required to implement these requirements until July 1, 2017. However, if the delay is elected, the School District must document this in writing.

The School District should be aware that the aforementioned requirements for written procedures are more extensive in nature than those required for a financial statement audit, which focus on key controls related to grants management. The Michigan Department of Education has indicated that districts that do not have the requisite written policies and procedures in place may be excluded from future participation in the grants program. In addition, absence of policies and procedures required under the Uniform Guidance could result in single audit findings.

Lapeer Community Schools of Lapeer County

Informational Items (Continued)

We encourage the School District to review its policies and procedures to ensure that the items listed above have been addressed and are easily accessible for use and in the event of a fiscal monitoring. Many, if not all, of the items may already be addressed in various different forms throughout the School District's policies and procedures; however, it is important the School District be aware of where the written documentation resides. If any items are not currently addressed, we recommend the School District establish the required procedures and document them accordingly.

GASB Statement No. 68 - Pension Standards

Reporting units have made it through the implementation year of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, at June 30, 2015 and yet, it is still a front-runner for topics of conversation for the June 30, 2016 reporting period. The information below provides a summary of what GASB Statement No. 68 represents and what changes have been made or will be made to define the future of the standard.

In order to create a plan for the future, it is important to revisit what happened during the implementation of GASB Statement No. 68.

GASB 68 Refresher

GASB Statement No. 68 requires entities to include the following on the government-wide financial statements of MPSERS reporting units:

- The proportionate share of net pension liability
- The proportionate share of pension expense
- Additional pension-related notes to financial statements
- Additional pension-related required supplemental information

Office of the Auditor General:

- Office of the Auditor General will audit the plan similar to the prior year based on the MPSERS "measurement date".

GASB 68 - The Future

- The GASB 68 employer information website has continued to be the portal for all information and a resource library (Michigan.gov/psru) for reporting units. It included deferred inflow and outflow tables for each active year of deferrals, which required some assessment by reporting units and auditors, including a five-year amortization table that is not prevalent in year two of implementation.
- Currently, the unfunded liability associated with retiree health care (OPEB) is not included in the computation, but will be added in the future when GASB 75 is adopted. Three years of contributions to the OPEB plan continue to be disclosed.

GASB 68 will continue to have a significant impact on the government-wide financial statements and will continue to create significant complexity for the School District and the auditor in completing and auditing the annual financial report.

Lapeer Community Schools of Lapeer County

Informational Items (Continued)

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

While reporting units are still focused on the second year of GASB Statement No. 68, we still need to prepare for GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which will be effective for the School District's June 30, 2018 financial statements. This statement addresses reporting by governments that provide postemployment benefits other than pensions (OPEB) to their employees and for governments that finance OPEB for employees of other governments. This OPEB standard will require the School District to recognize on the face of the government-wide financial statements its proportionate share of the net OPEB liability related to its participation in the MPSERS plan. The statement is expected to have a similar impact on the statement of net position as did GASB 68 when it was adopted in 2015. Just like GASB 68, it is not expected to have an impact on the modified accrual funds (General Fund), and should not impact the School District's budget process. The statement also enhances accountability and transparency through revised note disclosures and required supplemental information (RSI).

Wire Transfer Controls and ACH Transactions

Electronic payments are a popular way of paying vendors. This is due to the quick and efficient nature of the transactions as well as the reduced cost of printing, mailing, and processing traditional paper checks. However, as with most things that make our lives easier, this comes with some risk. Wire transfers allow almost instantaneous transfer of funds. In most cases, this transfer is not reversible and could be for any amount up to the balance on deposit or up to the limit of a linked line of credit. It is important to ensure there are strong controls over the use of wire transfers, including both internal detective controls (such as proper documentation, approval, and reconciliation) and external preventive controls.

The following external preventive controls should be considered to mitigate the risks of unauthorized or unaccounted transactions:

- Most financial institutions will allow a depositor to set limits on how much can be wired and to whom. This may apply to both online banking and transfers made from a physical branch location.
- Many financial institutions will also allow depositors to specify that an individual separate from the initiator of the wire must provide approval to the financial institution before they will process and complete the transfer. It is important that the approval process take place prior to the release of wire transfers, as those amounts cannot be reversed. Most financial institutions can implement this feature into the online banking website to require approval by multiple users.
- Additionally, many financial institutions offer various fraud prevention tools such as ACH debit blocker service. This service is a tool that will deny any submitted ACH debit that is not on an approved vendor list. This tool can often be managed online to monitor activity on a regular basis.

Ensuring there are strong preventive controls around the electronic movement of cash will help minimize the risk of misappropriation of assets. We encourage the School District to explore its options for preventive controls with its financial institution.

Lapeer Community Schools of Lapeer County

Informational Items (Continued)

IT Security

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

Here are some questions to think about regarding cybersecurity issues:

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

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

White Collar Overtime Regulations

Under the Fair Labor Standards Act (FLSA), an employee is generally entitled to minimum wage and overtime payment unless the employee satisfies a white collar worker exemption. Salaried employees that perform certain duties, such as executive, administrative, and professional employees, are referred to as white collar employees.

The Department of Labor recently released updated white collar overtime regulations that will take effect by December 1, 2016. Under the updated regulations, a white collar employee must earn a salary of at least \$913 per week (\$47,476 per year) and satisfy the duties test in order to be exempt from the overtime pay rules. This means that any white collar employee making less than \$47,476 will generally be entitled to be paid overtime, regardless of job duties. The salary level threshold will be increased every three years to remain consistent with the 40th percentile of full-time salaried workers in the lowest-wage census region.

Lapeer Community Schools of Lapeer County

Informational Items (Continued)

The regulations have a special exemption for those that are bona fide teachers, or who have a primary duty of teaching. Teachers (as well as practicing doctors and lawyers) are considered to be exempt professionals even though they may not meet the required salary level threshold. In addition, the regulations provide another exemption for academic administrative employees. Depending on the facts and circumstances, an academic administrative employee may include a vice principal of a school or even an academic counselor. Academic administrative employees must be paid a salary that is equal to or greater than the salary for entry-level teachers in the same educational institution in order to be considered an exempt employee. However, there are likely many employees with duties not unique to an educational setting that may now become eligible for overtime due to the salary level increase, such as managers in food service or transportation areas. We urge you to evaluate your staff compensation levels to determine which employees may now be subject to the new overtime regulations. The time to implement these rules and/or any changes in your compensation practices is quite short, so prompt review of your employee information is essential.