Allen Park Public Schools

Report to the Board of Education

Year Ended June 30, 2015

Plante & Moran, PLLC
27400 Northwestern Highway
P.O. Box 307
Southfield, MI 48037-0307
Tel: 248.352.2500
Fax: 248.352.0018
plantemoran.com

October 22, 2015

To the Board of Education
Allen Park Public Schools

We have recently completed our audit of the basic financial statements of Allen Park Public Schools (the "School District") as of and for the year ended June 30, 2015. In addition to our audit report, we are providing the following results of the audit, other recommendations, and informational items which impact the School District:

We are grateful for the opportunity to be of service to Allen Park Public Schools. We would also like to extend our thanks to Pamela Smart 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 and appreciate the time and attention provided to us. Should you have any questions regarding the comments in this report, please do not hesitate to call.

Plante & Moran, PLLC

Results of the Audit

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October 22, 2015

To the Board of Education
Allen Park Public Schools

We have audited the financial statements of Allen Park Public Schools (the "School District") for the year ended June 30, 2015 and have issued our report thereon dated October 22, 2015. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated May 27, 2015, 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 22, 2015 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.

To the Board of Education
Allen Park School District

October 22, 2015

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 May 11, 2015.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the School District are described in Note 1 to the financial statements. As discussed in Note 1 to the basic financial statements, effective July 1, 2014, the School District adopted the provisions of Governmental Accounting Standards Board Statement No. 68. Accordingly, the accounting change has been retrospectively applied to July 1, 2014 as required by the standard.

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

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

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

The most sensitive 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 68. The School District's estimate as of June 30, 2015 is approximately $49,300,000, and is based on data received from the Office of Retirement Services. We evaluated the key factors and assumptions used to develop the accounting estimate 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.

Difficulties Encountered in Performing the Audit

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

Disagreements with Management

For the purpose of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report.

We are pleased to report that no such disagreements arose during the course of our audit.

Corrected and Uncorrected Misstatements

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

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

Significant Findings or Issues

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 22, 2015.

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.

Other Information in Documents Containing Audited Financial Statements

Our responsibility for other information in documents containing the entity's financial statements and report does not extend beyond the financial statements. We do not have an obligation to determine whether or not such other information is properly stated. However, we read the budgetary comparison schedule and nothing came to our attention that caused us to believe that such information, or its manner of presentation, is materially inconsistent with the information or manner of its presentation appearing in the financial statements.

This information is intended solely for the use of the Board of Education and management of Allen Park Public 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

Paul D. Bryant

Paul D. Bryant

Summary of Unrecorded Possible Adjustments

Allen Park Public Schools

Summary of Unrecorded Possible Adjustments

Client: Allen Park Public Schools
Opinion Unit: Governmental Activities
Y/E: 6/30/2015

SUMMARY OF UNRECORDED POSSIBLE ADJUSTMENTS

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

Ref. #	Description of Misstatement	Current Assets	Long-term Assets	Current Liabilities	Long-term Liabilities	Equity	Revenue	Expenses	Net income statement impact
FACTUAL MISSTATEMENTS:									
A1	To match state aid receivable to state aid status report	$ 16,764					$ 16,764		$ 16,764
A2	To reclass AP into inventory for commodities	11,839		$ 11,839					
A3	To record additional MSPERS 147c accrual			304,054				$ 304,054	(304,054)
JUDGMENTAL ADJUSTMENTS:									
B1	None								
PROJECTED ADJUSTMENTS:									
C1	None								
		-	$ -	-	$ -	$ -	-	-	-
	Combined effect	28,603	-	315,893	-	-	16,764	304,054	(287,290)
	Less: Effect of adjustments for which auditor's report is qualified	-	-	-	-	-	-	-	-
	Total	$ 28,603	$ -	$ 315,893	$ -	$ -	$ 16,764	$ 304,054	$ (287,290)
PASSED DISCLOSURES:									
D1	None								

Client: Allen Park Public Schools
Opinion Unit: General Fund
Y/E: 6/30/2015

SUMMARY OF UNRECORDED POSSIBLE ADJUSTMENTS

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

Ref. #	Description of Misstatement	Current Assets	Long-term Assets	Current Liabilities	Long-term Liabilities	Equity	Revenue	Expenses	Net income statement impact
FACTUAL MISSTATEMENTS:									
A1	To match state aid receivable to state aid status report	$ 16,764					$ 16,764		$ 16,764
A2	To record additional MSPERS 147c accrual			$ 304,054				$ 304,054	(304,054)
JUDGMENTAL ADJUSTMENTS:									
B1	None								
PROJECTED ADJUSTMENTS:									
C1	None								
		-	$ -	-	$ -	$ -	-	-	-
	Combined effect	16,764	-	304,054	-	-	16,764	304,054	(287,290)
	Less: Effect of adjustments for which auditor's report is qualified	-	-	-	-	-	-	-	-
	Total	$ 16,764	$ -	$ 304,054	$ -	$ -	$ 16,764	$ 304,054	$ (287,290)
PASSED DISCLOSURES:									
D1	None								

Allen Park Public Schools

Summary of Unrecorded Possible Adjustments (Continued)

Client: Allen Park Public Schools
Opinion Unit: Aggregate Remaining Fund Info
Y/E: 6/30/2015

SUMMARY OF UNRECORDED POSSIBLE ADJUSTMENTS

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

Ref. #	Description of Misstatement	Current Assets	Long-term Assets	Current Liabilities	Long-term Liabilities	Equity	Revenue	Expenses	Net income statement impact
FACTUAL MISSTATEMENTS:									
A1	To reclass AP into inventory for commodities	$ 11,839		$ 11,839					
JUDGMENTAL ADJUSTMENTS:									
B1	None								
PROJECTED ADJUSTMENTS:									
C1	None								
		-	$ -	-	$ -	$ -	$ -	$ -	$ -
	Combined effect	11,839	-	11,839	-	-	-	-	-
	Less: Effect of adjustments for which auditor's report is qualified	-	-	-	-	-	-	-	-
	Total	**$ 11,839**	**$ -**	**$ 11,839**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**

PASSED DISCLOSURES:

Ref. #	Description
D1	None

Other Recommendations

Other Recommendations

As part of the audit, there were several items and suggestions that we would like to bring to your attention. We have also included our recommendations to the administration for review.

- **Bank Reconciliations** - During the audit it was noted that the School District does prepare its bank reconciliations, but there is no formal documentation to show who prepared the bank reconciliation, the date it was prepared, who reviewed the reconciliation, and the date it was reviewed. We recommend that the School District implement procedures to formally document the preparation and review of bank reconciliations so the School District can ensure they are being both prepared and reviewed timely.

- **IDEA Proportionate Share** - During our audit of Special Education Cluster it was noted that proportionate share was not met in relationship to providing services to Cabrini special need students. We recommend that the District implement procedures to properly monitor proportionate share to ensure that it is met on a yearly basis. Since the proportionate share was not met in 2014-2015 fiscal year, the District should also put procedures in place to ensure that the shortfall of costs are made up in the 2015-2016 fiscal year.

Informational Items

Complying with GASB 68

As referenced in the pre-audit letter to the Board of Education, the School District was required to comply with GASB 68 for the first time in the June 30, 2015 financial statements. This new accounting standard required that the School District record its share of the total statewide Michigan Public School Employees Retirement Plan Net Pension Liability on its government wide financial statements. This accounting change has created one of the most significant changes to the financial statements in recent memory.

The process to determine the obligations, deferred inflows and outflows and pension expense amounts as well as the disclosures was complex. We worked closely with project managers at the Office of Retirement Services and the audit team at the Office of the Auditor General to ensure that the information provided to the District was accurate and available as timely as possible. We also worked with the District's finance staff to determine necessary inputs from the District records and to determine the required amounts for reporting and disclosure. To compute the required amounts, we developed a comprehensive workbook tailored to your district and provided a ½ day workshop exclusively for our clients to complete the workbook and finalize the GASB 68 information.

Given the accelerated timeline for financial statement filing with the Michigan Department of Education, the proactive team effort between the Plante Moran and the District was essential for a successful completion of the audit and timely filing. We appreciated the efforts of the business office for both getting the books closed and working through this challenging adoption of a very complex accounting standard.

Fund Balance

During the 2014/15 fiscal year the District faced continued financial challenges due to inflationary cost pressures. The outlook for 2015-2016 and beyond suggests future funding increases for operations will not be significant. This continues to put substantial pressure on Districts' operating budgets and fund equity.

During the 2014-2015 school year, the District's General Fund expenditures exceeded revenue by approximately $786,000. This resulted in reducing the General Fund equity to approximately $2,000,000 at June 30, 2015. We feel that it is important for the District to maintain its fund equity at an appropriate level. The benefit to the 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 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 health care costs, other cost pressures the District is facing and cash flow needs due to the fact about 18% of the District's state aid is received after the school year has ended, as well as, concerns over the financial health of the School Aid Fund in the future and the fact that the State is increasing its monitoring of each school district's financial health.

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, 2014, (excluding Detroit) is approximately 9.45 percent of expenditures. Fund equity of 5.5 percent of expenditures would approximately equal the District's average accounts payable and payroll for a 3-week period, while 11 percent would approximately equal 6 weeks. The District's fund equity percentage is 5.9 percent and equals approximately 3 weeks of operation.

The current fund balance policy prescribes a minimum fund balance at 6 percent of the year's expenditures in the General Fund. Clearly, the District will continue to face difficult budget challenges in 2015-2016. Given the continued uncertainties with State funding, budget planning and fund balance management will continue to be essential elements for District success.

State Aid Funding

State Aid and the Foundation Allowance - The fiscal year ended June 30, 2015 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; additional resources dedicated to assisting with funding the districts retirement/post-retirement health care obligation (MPSERS); and resources 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.

Best Practice: Instead of mandating certain activities the Governor identified many educational initiatives shortly after taking office and has used best practice funding to provide resources when a district performs the identified activities. Each year the list of criteria is modified and if a district chooses to, they must meet the criteria in order to receive the funding. The amount provided in 2014-2015 was reduced by $2 from the 2013-2014 level and was funded at $50 per pupil. To qualify for this incentive, the District was required to meet seven of nine identified best practice initiatives. Your district qualified for the $50/pupil in 2014-2015. For 2015/16, best practice funding was eliminated as part of the legislative effort to repackage state funding for schools.

Performance Grants: In 2014-2015, Districts could qualify for an additional categorical based on the District's ability to meet certain student performance measures. The maximum a District could qualify for is $100/pupil. Your district received $40 per pupil. Depending on the District's student performance results, the District could receive one, two, or all three of the allocations of $30/$30/$40 per pupil for performance measures. The measurement areas are grades 3-8 in reading, 3-8 in math and 9-12 for all subjects tested, respectively. Similar to the best practice categorical, for 2015-2016, performance funding was eliminated as part of the repackaging of school aid.

MPSERS Cost Support: The contribution rate the District is required to pay continues to rise. The District has no ability to influence the rate and no choice regarding its participation it the program. Recognizing the costs are increasing under the current system, the 2014-15 State Aid Act continued to include funding to help pay for some of the increased cost. The categorical aid is formula driven using the District's MPSERS payroll participation data. This funding is provided in 2 separate sections of the State Aid Act 147a and 147c. The District received a total of $263,194 in 147a and $1,616,248 of 147c categorical aid to help offset the impact of the increase in the retirement costs. The 2015-2016 State Aid Act continues this MPSERS cost support categoricals. The school district Section 147c was designed to fund approximately 8% of covered payroll and does not increase District resources. Instead, the funding is recognized as revenue and then returned directly to the retirement system. In general terms, this means that the total cost of the retirement system contributions in 2014-2015, representing approximately 34% of covered payroll, is recognized as an expenditure in the District's financial statements along with related revenue that was previously considered state support to the system. The net effect is that the district is responsible for an approximate 26% contribution to the retirement system. The 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 2015-2016, The net effect of all these changes for 2015-2016 is that the district's net out of pocket contribution will continue at an estimated 25.78%, consistent with the previous year, but the total cost of the retirement system will have grown to an estimated 36.31%.

Other State Aid Act Changes Impacting 2015/2016

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

Days and Hours - The minimum days for 2015-2016 are set at 175. For 2016-2017, the minimum days will increase to 180. The hours requirements is maintained at 1,098 but, beginning in 2014-2015, the counting of 38 hours of professional development is eliminated as part of the 1,098 hours.

Transparency Reporting Requirements - These content posting requirements continue to expand and include, but are not limited to, Deficit Elimination Plans, Enhanced Deficit Elimination Plans, District credit card information, budget information, procurement and reimbursement policies, and out of state travel information. Transparency reports must be updated on the district's website within 15 days of the change, as compared to the previous 30-day requirement.

At Risk Funding (31a) - In 2014-2015 there were several changes to the allowable uses of At Risk funds. The changes focus on third grade reading proficiency and ensuring high school students are career/college ready. For 2015-2016, the program was increased by $70 million or 23% and additional changes were made focusing on implementation of a K-3 multi-tiered support system for instruction and intervention. Districts will have to review At Risk programming to ensure use of funds aligns with these changes.

Online learning - The District is required to offer online learning to students in grades 6-12. For 2015-2016 course offering providers were expanded to include community colleges and the maximum on-line course fee was established at 6.67% of the minimum foundation allowance (about $488).

Great Start Readiness Program - Funding for 2014-2015 increased from $65 million to $130 million to provide up to 16,000 additional half-day slots for four year olds. The funds are provided to the District through the intermediate school district. The program continues for 2015-2016. If the District is not participating in this program, this may be an opportunity to attract students to the District who could then remain in the district for their educational career.

State Aid Planning Considerations for 2015-2016 and Beyond

Michigan's economy continues to improve. As we have seen by the Revenue Estimating Conference predictions, the School Aid Fund revenues continue to grow, but at a slow pace. The Governor's executive recommendations and legislative actions have provided some increases for general operations but have not fully replaced the $470/pupil cut experienced several years ago. Increases are concentrated in early childhood, at risk, and in funding for the increasing retirement obligation. While the final State Aid Act amendments provided additional funds for operations in 2015-2016, because of the elimination of performance funding and best practices, for many the net increase in funding was just a net $25/pupil. In addition, for districts above the minimum foundation this lower increase may create the need to revisit revenue estimates used in the initial 2015-2016 budget. As the Legislature and Governor continue to modify tax policy and School Aid Fund resource allocations, the growth and availability of School Aid Fund resources to fund K-12 operations may be further limited.

Clearly, the key issue facing the future of school funding is the need to cover the cost of the retirement system. Because the costs continue to increase by amounts in excess of current contributions, the funding theme in the future will continue to be how to use School Aid Fund resources to cover the obligation. Funding this obligation will continue to impact the school district's ability to receive additional resources to fund general education initiatives.

As the District looks to the future, careful planning will continue to be key. The use of budget modeling will increase in importance, especially as it looks to determine actual state funding available to fund operations. We recommend the District fully analyze the projected revenues available to fund operations before entering into multi-year expenditure agreements.

Early Warning Legislation

In July 2015, the Governor signed into law a ten-bill package which many refer to as “Early Warning Legislation”. This legislation is aimed at identifying districts that may be showing signs of fiscal distress, creating a system of reporting this situation sooner than in the past, and requiring those districts deemed to be in distress to remit more frequent financial data to Treasury. The entire Early Warning System is under the supervision of 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% of general fund revenue in each of the last two years (fiscal 2014 and 2015). 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. This information was due by August 7, 2015.

It should be noted the computation of fund balance as a percentage of general fund revenue and the associated budgetary assumption reporting will continue. However, in future years, the information will be due on July 7th (rather than August 7th) and will require district’s to compute certain information only one week after their fiscal year ends.

Once remitted, the State Treasurer may conclude that the potential for fiscal stress may exist. At that time, the district may conclude to contract with the ISD 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 Treasury on the status of implementation of the recommendations.

For the years ended June 30, 2014 and 2015, the general fund balance was 8.5% and 6.0% of general fund revenue, respectively. The District should continue to monitor this figure closely so any required reporting can be done in accordance with the required timelines.

School Aid Fund Dynamics

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

Beginning with the 2011-2012 amendments to the State Aid Act, we experienced a redefinition of the funding model. Districts experienced a $470 per-pupil funding cut which actually "revalued" the foundation and created a new base. Along with the Governor's education initiatives, the concepts of "best practice" and "rewarding" student performance were entered into the funding scheme. And most significantly, the funding for higher education was moved from the general fund into the School Aid Fund along with a restructuring of tax policy. This comprehensive view and approach to the management and funding of education created a new definition of reality for Michigan schools. This new reality continued into the Amendments to the State Aid Act for 2015-20165.

Implications from this change in funding approach are substantial and will change how a district will be able to generate additional state funding into the future. The additional revenue identified after the May 2015 Revenue Estimating Conference created a 2x funding formula increase of $70-$140 per pupil. To fund the increase the "pay for performance" concept was eliminated. As a result, districts reviving best practice funding and full performance funding resulted incurred a per pupil allocation decrease. As a result a funding floor categorical allocation was added. It provides a minimum per-pupil increase of $25. Once again, funds were also set aside to provide additional contributions to the retirement system. It is clear, that based on future projections from the retirement system, that the increased costs of the system will absorb significant resources from the School Aid Fund or from District operating budgets. Based on the funding priorities from this legislative session, it appears the focus will continue to be on the costs of the retirement system, but with a shift away from the performance funding strategy used previously.

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

Financial Stability - Trends

Financial performance for school districts has been actively monitored for several years, with an emphasis on the state-wide decline of fund balances and an increase in districts reporting deficits. The State Superintendent reports quarterly on the districts going into and coming out of deficit positions. From June 30, 2012 to June 30, 2014, of the districts that started the year with deficits, 29%, 45% and 49% at June 30, 2012, 2013 and 2014, respectively, either eliminated or reduced their deficit by year end. With each year, more districts were having positive results, however, the number of districts in deficit increased each year, and schools that fell off the listing, were being added back on. The reports indicate a more positive outlook for 2014-2015 than the prior three years. The percentage of districts eliminating their deficits or reducing their deficits has increased steadily and is projected to increase even more for June 30, 2015. For the years ended June 30, 2013 and 2014, 12 districts had eliminated their deficits at each year end. It is projected that 18 districts will eliminate their deficits by June 30, 2015 and the number of districts in deficit is expected to decline from June 30, 2014. In reviewing the quarterly reports, while more districts are eliminating their deficits, it can be seen that there are new districts added to the list each year, and some are removed and then fall back into deficit.

State-wide fund balance as a percentage of expenditures, excluding Detroit Public Schools, has decreased from 11% at June 30, 2012, to 9.60% at June 30, 2013 and 9.45% at June 30, 2014. Additionally, fund balance state-wide has been decreasing approximately $100 million each year since June 30, 2012. Approximately 10% of Michigan districts are projected to be in deficit at June 30, 2015.

As explained above, districts are becoming less liquid, their fund balances are declining, and while the number of districts in a deficit position is projected to decline, there has been a great deal of change over in the districts in that position. As fund balances continue to decline, risks associated with the funding system grow.

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. These changes are effective for grants received by the District beginning in 2015 and all School Districts receiving federal dollars will need to understand the changes made as a result of these reforms and may be required to make some changes to internal procedures, processes, and controls.

These reforms impact three key areas of federal grants management:

1. **Audit Requirements** - For fiscal years beginning on or after January 1, 2015 (fiscal year ending June 30, 2016 for Michigan schools), the threshold for obtaining a federal awards audit will increase from the current threshold of $500,000 of annual federal spending to $750,000. There will also be significant changes to the criteria for qualifying as a low-risk auditee and a reduction in the number of major programs required to be tested for some Districts.

   The District has historically been above the new $750,000 threshold. However, from time to time, depending upon the level of federal spending, the District may drop below the audit requirement threshold and monitoring of federal program expenditures will be important to ensure compliance with the audit requirement.

2. **Cost Principles** - Effective December 26, 2014, the grant reforms related to cost principles went into effect. Not only were certain changes made to allowable costs under this new guidance, but there were significant changes in the area of time and effort reporting and indirect costs. The State of Michigan will have a significant impact on how these changes will be applied to Michigan schools, as they often have different requirements than the federal government in this area.

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 may impact the District's procurement systems, including maintaining written conflict of interest policies and disclosures as well as updated grants management 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. Please note, these requirements are more stringent that those required under your federal program audit, which focuses on key controls versus the overall process.

These revisions are clearly the most significant changes to occur to federal grants management in recent history. School Districts receiving federal funding will need to carefully digest these changes as the application of these changes will need to be assessed on a district by district basis. 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 your District's staff in understanding the changes and how they impact the District. We provided two webinars on the grants management changes and are planning a third for the fall of 2015. Those webinars are archived and available at no charge on our website to assist districts in increasing their understanding of the changes.

Accounting Items - GASB Statement No. 75 - OPEB

GASB Statements No. 75 - *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, will be effective for the District's June 30, 2018 financial statements. This statements requires governments providing non-pension postemployment benefits (namely, retiree health care) to recognize these unfunded obligations as a liability for the first time, and to more comprehensively and comparably measure the annual costs of these postemployment benefits. Due to the District's mandatory participation in the Michigan Public School Employees' Retirement System (MPSERS), the District will be required to report the District's share of postemployment liabilities in the basic financial statements (at the government wide level and in proprietary funds – but not the General Fund). While the District has a very small share of the statewide postemployment liability (less than 1%), the District's portion of this obligation will be significant to your financial statements. The District and Plante Moran will work closely with ORS to obtain the information necessary to implement the new requirements. Changes in the postemployment liability will generally be reported as postemployment benefits expense at the government-wide level and in proprietary funds. The Statement also enhances accountability and transparency through revised note disclosures and required supplemental information (RSI).

Some factors to focus on as the district prepares for adoption of this standard include:

- The Office of Retirement Services is working on a implementation plan to assist District in obtaining needed information
- As a result of GASB Statements No. 68 and No. 75, it is likely the government-wide financial statements will report a negative net position. The State and bond rating agencies understand this fact and it should not adversely affect the assessment of the District's financial position, as both agencies have been considering this obligation for quite some time in their assessments of districts and other agencies.
- As stated above, the adoption of the standard will not impact the MPSERS expenditures reported in the General Fund and will not impact General Fund fund balance.
- Disclosures regarding the plan and data related to the plan will be significantly expanded in the District's financial statements, which is consistent with the implementation of GASB Statement No. 68.

Once the Plan's fiscal year is ended and the audit of the MPSERS plan is completed by the State of Michigan, we will have a clearer picture of the total postemployment liability and the District's proportionate share.

GASB Statement No. 72

GASB Statement No. 72 - *Fair Value Measurement and Application*, will be effective for the District's June 30, 2016 financial statement. The Statement provides a more detailed definition of fair value, establishes acceptable valuation techniques and enhances disclosure requirements in order to increase consistency across governments. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Investments that are within the scope of the standard, which are generally securities that the government holds to make a profit, will be measured at fair value. In addition to reflecting the asset at fair value in the Balance Sheet, the change in fair value will be reflected as an increase (or decrease) to Fund Balance on the Statement of Revenue, Expenditures, and Changes in Fund Balance. Additional fair value disclosures will also be required in the notes to the financial statements, outlining the hierarchy of inputs and valuation technique used to arrive at fair value. Notable exceptions to this pronouncement include money market investments, 2a7 investment pools, investments in life insurance contracts, equity method common stock, unallocated insurance contracts and synthetic guaranteed investment contracts. If the transition to fair value is determined to be material as of June 30, 2015, then a restatement of prior year fund balance will be required in your financial statements next year.

Some factors to focus on as the district prepares for adoption of this standard include:

- Identify which investments held by the district will be subject to this standard and which may be exempt.
- Ensure appropriate valuation inputs are available on a unit of account basis to ensure proper valuation as of the measurement date.