Grosse Pointe Public School System

Report to the Board of Education

June 30, 2018

To the Board of Education
Grosse Pointe Public School System

We have recently completed our audit of the basic financial statements of Grosse Pointe Public School System (the “School District”) as of and for the year ended June 30, 2018. In addition to our audit report, we are providing the following results of the audit, other recommendations, and informational items that impact the School District:

We are grateful for the opportunity to be of service to Grosse Pointe Public School System. We would also like to extend our thanks to Lisa Abbey, Dee Ann Irby, 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.

October XX, 2018

Results of the Audit

October XX, 2018

To the Board of Education
Grosse Pointe Public School System

We have audited the financial statements of Grosse Pointe Public School System (the “School District”) as of and for the year ended June 30, 2018 and have issued our report thereon dated October XX, 2018. Professional standards require that we provide you with the following information related to our audit.

<u>Our Responsibility Under U.S. Generally Accepted Auditing Standards</u>

As stated in our engagement letter dated June 21, 2018, 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 XX, 2018 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.

<u>Planned Scope and Timing of the Audit</u>

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on June 21, 2018.

<u>Significant Audit Findings</u>

Qualitative Aspects of Accounting Practices

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

As described in Note 2, the School District adopted the provisions of Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Accordingly, the accounting change has been retrospectively applied to July 1, 2017, 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 estimates affecting the financial statements were the School District's share of the MPSERS net liabilities for the pension and other postemployment benefit (OPEB) plans recorded on the government-wide statements related to GASB Statements No. 68 and 75, respectively. The School District's estimates as of June 30, 2018 were $165,138,568 and $56,412,508 for the pension and OPEB plans, respectively, based on data received from the Office of Retirement Services. We evaluated the key factors and assumptions used to develop the accounting estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

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

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in 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. We did not detect any misstatements as a result of audit procedures.

Significant Findings or Issues

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

As required by 2 CFR Part 200, we have also completed an audit of the federal programs administered by the School District. The results of that audit are provided to the Board of Education in our report on compliance with requirements applicable to each major program and on internal control over compliance in accordance with 2 CFR Part 200 dated October XX, 2018.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October XX, 2018.

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.

<u>Other Information in Documents Containing Audited Financial Statements</u>

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

Very truly yours,

Plante & Moran, PLLC

Laura K. Claeys

Lisa Vargo, CPA

Informational Items

STATE AID FUNDING

State Aid and the Foundation Allowance

State of Michigan funding for public schools continued to focus on several recurring themes and some new ones for the fiscal year ended June 30, 2018: limited increases in the foundation allowance; additional funding boosts for districts at the minimum foundation; continued student count blending formula; and additional resources dedicated to assisting with funding the School District's retirement/postretirement healthcare obligation (MPSERS), including implications from changes in plan assumptions and costs incurred from changes to retirement system programs. A new revenue source provided an additional $25 per pupil for high school enrollment. This was in addition to the School District's foundation allowance funding.

2017-2018 Foundation: For the 2017-2018 fiscal year, the base foundation increased once again by $60, from $8,229 to $8,289. The State continued its use of the "2X formula" providing districts at the minimum foundation with an increase of $120 per pupil to $7,631. The School District's foundation allowance was increased to $9,984. In 2011, the foundation allowance for school districts was cut $470 per pupil as a budget balancing action. For comparison purposes, districts at the minimum foundation allowance are only now fully recovering those cuts, and districts near the base foundation are still yet to be fully restored. In the 2017-2018 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 and 2016-2017, this categorical guarantees at least a $25 per pupil increase after giving account to the funding changes. This provision continues for 2018-2019.

2018-2019 Foundation: For the 2018-2019 fiscal year, the base foundation increases by $120, from $8,289 to $8,409. Additionally, using the "2X formula," the minimum foundation allowance increases by $240 per pupil to $7,871. Based on these changes, the School District will receive a $120 increase in its foundation allowance, representing an increase of 1.2 percent. In an attempt to consider the fact that educating high school students is more costly than those of lower grades, an additional $25 per high school pupil allocation was created in 2017-2018 and continues for 2018-2019. This Section 22n funding is not rolled into the foundation calculation. Cyber schools and shared-time programs received significant attention during budget development, but in the end funding for these programs was not changed for 2018-2019.

Foundation Calculations for Hold Harmless Districts: Due to an inflationary cap on Hold Harmless District Foundation Allowances, which was put in statute along with the school funding reforms tied to Proposal A in 1994, Hold Harmless districts (currently foundation allowances greater than $8,409) are capped. Beginning in 2017-2018, the State Aid Act provides funding for the difference between each Hold Harmless district's inflationary increase and the $120 increase in the base foundation allowance to be allocated under a separate calculation. This supplemental payment now included in the foundation allowance calculation allows Hold Harmless districts to receive the same minimum funding increase as other districts in 2018-2019.

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

MPSERS Cost Support: Retirement system contributions are a significant part of the School District's labor costs. During 2017-2018, the contribution rate the School District is required to pay continued to rise, though the growth rate has slowed. In addition, as a result of PA 92, the program offerings have changed and increased in complexity. The School District has no ability to influence the rate and no choice regarding its participation in the program. To aid the School District in meeting its obligation, the 2017-18 State Aid Act continued to include two funding sources and added three more to help pay for some of the increased cost. Each categorical aid section is formula driven using the School District's MPSERS payroll participation data, and each is designed to support a specific cost factor in the retirement contribution. Funding is provided in three separate sections of the State Aid Act, Sections 147a, 147c, and 147e. The School District received a total of $756,353 in 147a1, $333,007 in 147a2, $6,533,110 in 1471c1, $1,286,053 in 147c2, and $25,099 of 147e categorical aid to help offset the impact of its retirement costs. Each of these sources continues for 2018-2019 except for 147c2, which was designed as a one-time payment to offset a one-time retirement cost. In general terms, this means that the total cost of the retirement system contributions in 2017-2018, representing approximately 37 percent of covered payroll, is recognized as an expenditure in the School District's financial statements along with related revenue that was previously considered state support to the system. The net effect is that the School District is responsible for approximately a 26 percent contribution to the retirement system. The School District budgeted for additional state revenue and additional retirement expenditures in order to accommodate this funding mechanism, but may encounter some budget variances due to the fact that the state revenue provided is based on prior year school district payroll information, and some amounts were adjusted with the August 2018 state aid payment.

The changes referenced above are the result of many factors. A discussion of the key changes impacting retirement contributions and retirement funding follows. The first is the fact that the assumed rate of return within the retirement plan decreased to 7.5 percent from 8 percent. When this assumption is reduced, it has the net effect of increasing the value of the retirement obligation for the plan. This then increases the required contributions to fund the plan. Second, for staff hired on or after February 1, 2018, the default employee election will be into a defined contribution (DC) plan; however, an employee can elect the hybrid plan within a specified time frame. District contributions and state support are also modified for employees electing the new DC plan. This created a change in the School District's cost of the benefit for employees new to the retirement system beginning in February 2018. Additional funding is provided under a new State Aid Act, Section 147e, to help support the shift to the new design.

Other State Aid Act Changes Impacting 2018-2019

Overall, 2018-2019 State Aid Act amendments did not include significant new program initiatives. This is a key reason why the per pupil foundation allowance funding was double what was provided in 2017-2018. One change of note that could impact the School District includes the following:

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

State Aid Planning Considerations for 2018-2019 and Beyond

Michigan's economy is growing steadily, but, based on Revenue Estimating Conference predictions, there continue to be financial challenges ahead for the State. In addition, come 2019, a new administration will be in place and likely new educational priorities. School Aid Fund revenue continues to grow at a modest pace, but the General Fund projections are at a slower pace with significant pressure on the state budget to fund continuing projects.

For 2018-2019, the funding increases were double those of the previous year. Only one significant initiative, the Marshall Plan, was put in place, and the Revenue Estimating Conference concluded there was sufficient growth to support the increase. These increases were the largest in well over 10 years. In planning for the future, districts should use care in estimating the future grow rates in per pupil funding. That is, it is unclear if the School Aid Fund will be able to provide similar increases in 2019-2020 and beyond. As the legislature and a new governor continue to modify tax policy, determine new educational initiatives, plan for state General Fund resource needs, assess retirement system performance and benefits, and revisit School Aid Fund resource allocations, the growth and availability of School Aid Fund resources to fund K-12 regular education programs is likely to be at or below the rate of inflation.

Clearly, the key issue continuing to face the future of school funding is the need to cover the cost of the retirement system. Public Act 92 and other modifications to the retirement system have been projected to create significant increased costs and modify how the retirement system is funded. While it appears the legislature has provided resources through the School Aid Fund to cover significant elements of the cost increase, this means those resources are not available to fund other K-12 operations. The need to fund this obligation will continue to impact the School District's ability to receive additional resources to fund general education initiatives, and monitoring legislative action in this area will be important in predicting future resource available for the School District.

Careful planning continues to be key for the School District to create a cost structure that is sustainable. The use of budget modeling is essential, especially as the School District looks to determine actual state funding available to fund regular education operations, as well as funding for specific initiatives. During the budget planning process, it is important to segregate resources required to fund specific activities, such as federal funding, special education, or At Risk, when assessing the resources available to fund continuing operations. We recommend the School District fully analyze the projected revenue assumptions to estimate resources available to fund operations when entering into multi-year expenditure agreements.

MPSERS Reform and Future Contribution Rates

There is a significant change on the horizon related to how school districts will make contributions to the MPSERS plans. Currently, MPSERS contributions are remitted to the Office of Retirement Services (ORS) after each pay period based on the payroll of participants in the plan multiplied by the applicable stated contribution rates, which are published by the ORS. Effective for the state fiscal year ending September 30, 2020, the calculation for MPSERS contributions will significantly change due to the recent passage of Public Act 181 in June 2018. Commencing October 1, 2019, the district's MPSERS contributions will no longer be tied to current payroll like they are today. Rather, contributions will be remitted to the plan following a formula that will start with a "base year" calculation of the district's payroll-related and purchased services expenditures. Each year after that base year, any increase in both payroll and purchased services will have a direct correlation to an increase in the base of the calculation for the amount of required MPSERS contributions. In short, the new law will include both payroll and purchased service expenditures when calculating a portion of the required contributions. One of the primary reasons for this change is that in general across the state, payroll is shrinking. The State of Michigan has a requirement to pay down the UAAL by a set date. At the current pace, given the contraction of payroll expenditures at most districts, it was anticipated that the UAAL was not on pace to be paid off by the set date. Essentially, the calculation of the UAAL contribution will compute a change in the payroll and purchase service base over time and apply that rate of change to an initial payroll level. The specifics of how the base will be determined and the initial period for payroll data are yet to be clarified. This modification in how districts contribute to the plan is one of the primary reasons for the shifts in how contributions are to be made.

An important goal for the timing of the change is to allow districts to be able to use the calculation model before the budget year begins so the actual expense can be determined and built into the district's budget. This change creates many questions that cannot yet be answered today. One of the primary issues at hand is whether or not the MPSERS contributions can continue to be charged to federal programs, now that the contributions will not be tied to current payroll. The School District should continue to keep an eye out for guidance on this important question as it becomes available; this is likely a regulatory matter on which we anticipate the department will need to publish guidance for the districts. The District should also keep in mind that this will have a significant impact on how the School District prepares its budget in the spring of 2019 for the 2019/2020 fiscal year.

ORS 3 Percent Healthcare Contribution - It's not over yet!

PUBLIC ACT 75 (PA75)

Effective July 1, 2010, PA75 required school districts withhold 3 percent from each employee's compensation and send it to the Michigan Office of Retirement Services (ORS) for deposit into a healthcare trust. After a lengthy court battle, in December 2017, the Michigan Supreme Court ruled PA75 unconstitutional and ordered all contributions and interest be refunded back to the employees. Total contributions statewide under PA75 approximated $550,000,000. In January 2018, ORS transferred the funds back to districts, which were then required to refund the dollars to the original contributors. This process was a significant administrative undertaking placed upon districts, and many continue efforts locating former employees who had separated from the districts years ago or families of employees who have since passed away. In addition, the refunded contributions are a return of wages withheld, and districts will be required to complete 2018 annual tax reporting related to the refunds in January 2019.

There may be more refunds and more work ahead for districts related to the PA75 contributions refund matter. A court case contesting the “very minimal” interest earnings on the PA75 contributions withheld over the period from July 2010 until September 2012, and not refunded to districts until January 2018, was concluded in July 2018. The case evaluated the total interest earnings of approximately $4,000,000 on the $550,000,000 PA75 contributions earned over a seven-year period. The funds were held by the State in a low-interest, or “safe,” savings account. In its decision, the Michigan Court of Claims ruled that school employees were entitled to, and should collect, additional interest, although the court did not specify the amount. The State can appeal this ruling.

PUBLIC ACT 300 (PA300)

In 2012, the Michigan Legislature passed Public Act 300, which changed employee retirement and retiree medical alternatives. Under the retiree medical alternatives, an employee could elect to continue the 3 percent contribution. Public Act 300 was also challenged in the Michigan courts. In 2015, the Michigan Supreme Court upheld the constitutionality of the law for the 3 percent retiree healthcare contributions made by public school employees beginning with the first payroll in February 2013.

FICA Taxation - Initially, there was much uncertainty regarding the taxation and withholding requirements related to the 3 percent contribution. Law firms have provided guidance that the required contribution is not subject to federal, state, or FICA taxation and, therefore, is not subject to withholding; Plante & Moran, PLLC supports this conclusion. However, many districts withheld FICA taxes as a result of the tax treatment uncertainty. Some of these districts have filed FICA refund claims with the IRS, and some have not. Some districts continue to withhold FICA taxes pending IRS determination of the 3 percent contribution tax treatment through a private letter ruling request.

After many years of mixed messages from various IRS representatives, and flip-flops on decisions, we are now aware from working with many clients and the IRS on this issue that the IRS is taking the position that PA300 contributions are not subject to FICA. Furthermore, the IRS clarified that FICA does not apply to retiree medical contributions during the transition period from PA75 to PA300 (September 4, 2012 to the first payroll February 2013). Districts that have not requested refunds already should do so. For years 2012, 2013, 2014 (statute closed years), districts would be eligible for refunds only if protective claims have been filed with the IRS for those years. For years 2015 through current (statute open years), districts should request FICA refunds. Please note, there are specific steps required to claim these refunds, and we recommend the School District ask for assistance, if necessary.

Micropurchase and Simplified Acquisition Threshold Increases

In June 2018, the Office of Management and Budget (OMB) issued memorandum M-18-18 providing guidance on changes to micropurchase and simplified acquisition threshold requirements. The key changes are as follows:

- Increase micropurchase threshold to $10,000 (or higher in certain limited circumstances)
- Increase simplified acquisition threshold (small purchase procedures limit) to $250,000

The changes impacting districts were created by changes to the National Defense Authorization Act (NDAA) of 2018. NDAA 2018 impacts all recipients (prime recipients, pass-through entities, and subrecipients). The memorandum clarifies that all entities can take advantage of the increases to the micropurchase threshold to $10,000 and the simplified acquisition threshold to $250,000, effective upon the issuance of the OMB memorandum (the date appearing on the memorandum is June 20, 2018). If the School District will take advantage of the increase, it should be documented in accordance with the general procurement standards of the Uniform Guidance at 2 CFR 200.318. Key adoption considerations for micropurchase and simplified acquisition threshold changes include the following:

- When the UG procurement standards were initially implemented, were specific amounts included in the policy or were references to the UG sections or amounts as adjusted referenced?
  - If specific amounts were referenced in the policy, the School District will need to update its policy to take advantage of the changes.
  - If the policy was written to allow for changes in amounts, grantee procedures will need to be updated to conform.
- If this change is inconsistent with other procurement policies within the School District, a decision must be made as to how the policy will be enacted. Remember, state law or other requirements may limit full utilization of the changes.
- Some districts may not choose to fully adopt the change, instead maintaining lower thresholds. Districts are not required to use these thresholds, but cannot exceed them.

Fund Balance

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

During the 2017-2018 school year, the School District's General Fund revenue exceeded expenditures by approximately $3,688,000. This resulted in increasing the General Fund equity to approximately $10,544,653 at June 30, 2018. Fund balance goals are often stated in terms of a percentage of total expenditures (excluding transfers out). As a point of reference, the statewide average for school districts at June 30, 2017 is approximately 12.79 percent of expenditures (excluding transfers out). Fund equity of 5.5 percent of expenditures would approximately equal the School District's average accounts payable and payroll for a three-week period, while 11 percent would approximately equal six weeks. The School District's fund equity percentage is 10.4 percent and equals approximately 5 weeks of operation. The fund equity increase demonstrates the School District has met their goal of a 10 percent fund equity.

Understanding and Managing Potential Threats to your Data

In today's age of continual reports of cyberattacks, School Districts need to be aware of where potential risks lie and how they are addressed and communicated to the employees and public. Even when the best controls are implemented internally, confidential student and employee information can still be at risk based on the variety of locations data is stored.

When it comes to cybersecurity, the human element is still the weakest link and most targeted – as passwords like "August2018" can be easily guessed and emails continue to trick people into clicking links and opening attachments. As information security is a district-wide issue, not just an IT department responsibility – security requires a combination of people, processes, and technology to effectively secure your student, employee and financial data. Now is the time to take a step back and assess exactly where your data is and the controls surrounding that data.

Key questions to ask include:

- Do you know where all of the various data resides in the district?
- Outside your data center network, are employees sending information to file sharing sites, saving data on their computers, taking information home on flash drives, or sharing information with third-parties? For example, do employees download reports or retain spreadsheets of information on their computers to work on and analyze?

Having an external party do an assessment on vulnerabilities may provide additional support to the IT team for initiatives they are implementing, providing peace of mind for the Board that vulnerabilities have been assessed and addressed and allow for a confident communication to the public that their student and employee data is secure. If you are interested in discussing this further, we would be happy to continue the conversation.

GASB Statement No. 75 - Reporting for OPEB Obligations

Effective for the School District's June 30, 2018 financial statements is GASB Statement No. 75 - *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This OPEB standard requires 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. While the School District has a very small share of the statewide OPEB liability (less than 1 percent), the obligation the School District recorded is significant.

The data required to record this liability has come from the retirement system using the plan's September 30, 2017 fiscal year end information. Changes in the net OPEB liability are reported as an expense at the government-wide level and in proprietary funds. The School District has recorded the deferred inflows and outflows with the plan as of the measurement date (September 30, 2017) and computed and reported the contributions expensed in the funds after the measurement date through the School District's fiscal year end.

The statement has a similar impact on the financial statements as did GASB No. 68 when it was adopted in 2015.

- The adoption of GASB 68 related to the MPSERS pension liability left many districts with a negative net position in the government-wide set of financial statements. The adoption of GASB 75 is likely to significantly increase that deficit.
- The adoption of the standard has not impacted the expenditures reported in the General Fund and has not impacted General Fund fund balance.
- Disclosures regarding the plan and data related to the plan are significantly expanded in the School District's financial statements.
- The adoption of the statement required adjustments to the beginning of the year net position.

GASB Statement No. 84 - Fiduciary Activities

This statement is effective for the first time in the School District's June 30, 2020 financial statements. The statement establishes criteria for identifying fiduciary activities of all state and local governments. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. The statement was issued as it was determined by the GASB that there was divergence in practice between governments in what was being reported in a fiduciary fund. This statement was designed to provide a principles-based approach that governments could apply against their situations to determine if certain activity should be reported in a fiduciary fund. The statement also establishes and defines four types of fiduciary funds: pension trust funds, investment trust funds, private purpose trust funds, and custodial funds. The School District will have to apply the new principle-based rules from this statement to determine if more or less reporting will be required related to fiduciary activities that may exist upon implementation of this standard, including the potential that certain activities could be reported as a new special revenue fund. This statement is expected to be significant for districts, as most districts have some form of fiduciary-type activities that will need to be evaluated using this new statement. The Michigan Department of Education (MDE) has communicated that additional guidance will be forthcoming from MDE in order to assist in assuring consistent application amongst districts.

GASB Statement No. 87 - Leases

This statement is effective for the first time in the School District's June 30, 2021 financial statements. The statement requires recognition of certain lease assets and liabilities for leases that were previously classified as operating leases and recognized as inflows or outflows of resources based on payment provisions of the lease. The statement was issued to improve accounting and financial reporting for leases by governments. The statement establishes a single model for lease accounting for both lessees and lessors based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. The School District will have to identify and analyze all significant lease contracts to determine the lease asset and lease liability or deferred inflow or outflow of resources that will be required to be recognized upon implementation of the standard.