
River School - Sodus Township #5

**Report to the Board of Education
June 30, 2019**

To Management and the Board of Education
River School - Sodus Township #5

We have recently completed our audit of the basic financial statements of River School - Sodus Township #5 (the "School District") as of and for the year ended June 30, 2019. In addition to our audit report, we are providing the following results of the audit and informational items that impact the School District:

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We are grateful for the opportunity to be of service to River School - Sodus Township #5. We would also like to extend our thanks the entire staff 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 4, 2019

Results of the Audit

October 4, 2019

To Management and the Board of Education
River School - Sodus Township #5

We have audited the financial statements of River School - Sodus Township #5 (the "School District") as of and for the year ended June 30, 2019 and have issued our report thereon dated October 4, 2019. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated June 20, 2019, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities. Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement.

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

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

Our audit of the School District's financial statements has also been conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. Under *Government Auditing Standards*, we are obligated to communicate certain matters that come to our attention related to our audit to those responsible for the governance of the School District, including compliance with certain provisions of laws, regulations, contracts, grant agreements, certain instances of error or fraud, illegal acts applicable to government agencies, and significant deficiencies in internal control that we identify during our audit. Toward this end, we issued a separate letter dated October 4, 2019 regarding our consideration of the School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our letter about planning matters dated July 17, 2019.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the School District are described in Note 2 to the financial statements. No new accounting policies were adopted, and the application of existing policies was not changed during 2019.

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

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

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

The most sensitive estimates affecting the financial statements were the School District's share of the MPSERS net liabilities for the pension and other postemployment benefit (OPEB) plans recorded on the government-wide statements related to GASB Statement Nos. 68 and 75, respectively. The School District's estimates as of June 30, 2019 were \$1,182,045 and \$314,198 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. Management has corrected all such misstatements.

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 4, 2019.

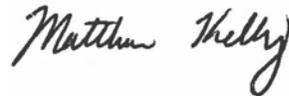
Management Consultations with Other Independent Accountants

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

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

Very truly yours,

Plante & Moran, PLLC



Matthew A. Kelly, CPA
Partner

Informational Items

State Aid Funding

State Aid and the Foundation Allowance

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

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

2019-2020 Foundation: For the 2019-2020 fiscal year, the target foundation allowance (formerly known as the basic foundation allowance) increases by \$120, from \$8,409 to \$8,529. Additionally, using the "2X formula," the minimum foundation allowance increases by \$240 per pupil to \$8,111. Based on these changes, the School District will receive a \$240 increase in its foundation allowance, representing an increase of 3.0 percent. When signing the bill, the governor exercised several significant line item vetoes. As a result, it is likely that there will be additional changes to funding for public education for 2019-2020. What will ultimately occur is unclear and will require careful monitoring by the School District. Although the foundation allowance for school districts has been finalized, the governor has made multiple line item vetoes to the school aid bill that impact various funding categoricals. The impact to each local district is yet to be determined until the governor signs the final bill.

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

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

MPSERS Cost Support: Retirement system contributions are a significant part of the School District's labor costs. During 2018-2019, the contribution rate the School District is required to pay continued to rise, though the growth rate has slowed. In addition, as a result of PA 92, the program offerings have changed and increased in complexity. The School District has no ability to influence the rate and no choice regarding its participation in the program. To aid the School District in meeting its obligation, the 2018-2019 State Aid Act continued to include several funding sources to help pay for some of the increased cost. Each categorical aid section is formula driven using the School District's MPSERS payroll participation data, and each is designed to support a specific cost factor in the retirement contribution. Funding is provided in three separate sections of the State Aid Act: Sections 147a, 147c, and 147e. The School District received a total of \$4,724 in 147a1, \$3,735 in 147a2, \$43,755 in 147c1, and \$51 of 147e categorical aid to help offset the impact of its retirement costs. Both governor and legislative proposals included these categoricals for 2019-2020. Included in the final house bill presented to the governor were increases to the MPSERS retirement rates. The estimated contribution rate now ranges from 36.44 percent to 39.91 percent, of which the rate paid directly by the employer now ranges from 24.03 percent to 27.50 percent. To help offset the increase in retirement rates and also to help offset reduced assumed rate of return in the pension plan, the bill also provides for an increase in 147a2 funding provided to the districts. In general terms, this means that the total cost of the retirement system contributions in 2018-2019, representing approximately 39 percent of covered payroll, is recognized as an expenditure in the School District's financial statements along with related revenue that was previously considered state support to the system. The net effect is that the School District is responsible for approximately a 27 percent contribution to the retirement system. The School District budgeted for additional state revenue and additional retirement expenditures in order to accommodate this funding mechanism, but may encounter some budget variances due to the fact that the state revenue provided is based on prior year school district payroll information, and some amounts were adjusted with the August 2019 state aid payment.

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

State Aid Planning Considerations for 2019-2020 and Beyond

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

Regardless of the results from the 2019-2020 State Aid Act amendments, careful planning will continue to be key for the School District to create a cost structure that is sustainable. The use of budget modeling is essential, especially as the School District looks to determine actual state funding available to fund regular education operations, as well as funding for specific initiatives. During the budget planning process, it is important to segregate resources required to fund specific activities, such as federal funding, special education, or At-Risk, when assessing the resources available to fund continuing operations. Especially when facing uncertainty, we recommend the School District fully analyze the projected revenue assumptions to estimate resources available to fund operations when entering into multiyear expenditure agreements.

Understanding and Managing Potential Threats to Your Data

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

When it comes to cybersecurity, the human element is still the weakest link and most targeted, as passwords like "August2019" can be easily guessed and emails continue to trick people into clicking links and opening attachments. As information security is a district-wide issue, not just an IT department responsibility, security requires a combination of people, processes, and technology to effectively secure your student, employee, and financial data. Now is the time to take a step back and assess exactly where your data is and the controls surrounding that data.

Key questions to ask include the following:

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

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