

Grosse Pointe Public School System

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



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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, 2016. 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:

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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, Isha Smith, 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

October 27, 2016



Results of the Audit

October 27, 2016

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, 2016 and have issued our report thereon dated October 27, 2016. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated June 10, 2016, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities. Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement.

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

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

Our audit of the School District’s financial statements has also been conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. Under *Government Auditing Standards*, we are obligated to communicate certain matters that come to our attention related to our audit to those responsible for the governance of the School District, including compliance with certain provisions of laws, regulations, contracts, grant agreements, certain instances of error or fraud, illegal acts applicable to government agencies, and significant deficiencies in internal control that we identify during our audit. Toward this end, we issued a separate letter dated October 27, 2016 regarding our consideration of the School District’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements. We encourage the Board of Education to read the schedule of findings and questioned costs included in the federal awards report.

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 June 10, 2016.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the School District are described in Note I to the financial statements. As discussed in Note I to the basic financial statements, the School District adopted in 2016 the provisions of Governmental Accounting Standards Board Statement No. 79, *Certain External Investment Pools and Pool Participants*.

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 related to GASB 68 and the determination of self-insurance liabilities. The School District's estimate as of June 30, 2016 is \$160,661,458, 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. 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 27, 2016.

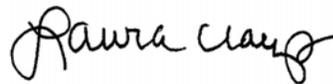
Management Consultations with Other Independent Accountants

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

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

Other Recommendations

Grosse Pointe Public School System

Other Recommendations

Special Education Maintenance of Effort - For fiscal year 2015-2016, the State of Michigan continues to evaluate maintenance of effort (MOE) on an aggregate basis by intermediate school district (ISD). Therefore, if an ISD passes the MOE requirement, the local districts are deemed to have passed as well. If a local district passes and the ISD does not pass, the local district is considered to be in compliance unless it receives notification otherwise from the State. If a local district fails and the ISD passes, it is important to get confirmation from the ISD that the local district is not at risk. Local districts should continue to track maintenance of effort individually and coordinate a plan with the ISD to ensure sufficient effort is being maintained. Since the official MOE evaluation uses prior year cost information, a best practice would be for the School District to complete a preliminary assessment of the current year MOE, or work with the ISD to have one completed. Each year, this becomes increasingly important as many districts have had to reduce costs and maintaining effort under the current guidelines becomes a larger challenge.

Bond and Sinking Fund Financing - As we have discussed in the past, legislation has been submitted to the governor for signature which would expand the use of sinking fund millage to certain security and technology items, while shortening the timeframe for which a millage is allowed to be assessed. As the School District continues to discuss what capital needs exist and how best to address them, we believe the expanded sinking fund language should be part of the conversation. Additionally, we commend the School District for the work done to date to analyze capital needs, engage the community in discussion about those needs and how to address them, and developing a plan for continued conversation.

Informational Items

State Aid Funding

State Aid and the Foundation Allowance

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

2015-2016 Foundation: For the 2015-2016, the School District's foundation allowance was increased to \$9,864. For comparison purposes, the School District's foundation prior to the \$470 cut was \$10,184, meaning the current foundation is \$320 per pupil below the 2011 foundation allowance.

2016-2017 Foundation: For the 2016-2017 fiscal year, the base foundation increases by \$60, and your District will receive that increase. The \$60 per-pupil increase in the foundation allowance represents an increase of less than 1 percent (0.7 percent).

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

Grosse Pointe Public School System

Informational Items (Continued)

MPSERS Cost Support: The contribution rate the School District is required to pay continues to rise, though the growth rate has slowed from 2015-2016. The School District has no ability to influence the rate and no choice regarding its participation in the program. Recognizing the costs are increasing under the current system, the 2015-2016 State Aid Act continued to include funding to help pay for some of the increased cost. The categorical aid is formula driven using the School District's MPSERS payroll participation data. This funding is provided in two separate sections of the State Aid Act, 147a and 147c. The School District received a total of \$779,684 of 147a and \$6,297,310 of 147c categorical aid to help offset the impact of the increase in the retirement costs. The 2016-2017 State Aid Act continues this MPSERS cost support categorical. The school district Section 147c was designed to fund approximately 10 percent of covered payroll and does not increase district resources. Instead, the funding is recognized as revenue and then returned directly to the retirement system. In general terms, this means that the total cost of the retirement system contributions in 2015-2016, representing approximately 36 percent of covered payroll, is recognized as an expenditure in the School District's financial statements along with related revenue that was previously considered state support to the system. The net effect is that the School District is directly responsible for an approximate 26 percent contribution to the retirement system. The School District budgeted for additional state revenue and additional retirement expenditures in order to accommodate this funding mechanism, but may encounter some budget variances due to the fact the state revenue provided is based on prior year school district payroll information.

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

Other State Aid Items

Early Warning Legislation

"Early Warning Legislation," a 10-bill package of bills, was signed in 2015. This legislation is aimed at identifying districts that may be showing signs of fiscal distress, creates a system of reporting this situation sooner than in the past, and requires those districts deemed to be in distress to remit more frequent financial data to 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 fund balance was less than 5 percent of General Fund revenue in each of the last two years (fiscal 2014 and 2015). The definition of revenue for purposes of this test focuses on General Fund unrestricted revenue. Districts that met this criteria were required to remit the budgetary assumption and expenditure per-pupil information to CEPI as the first step in the process. For 2016, this information was due by July 7, 2016, requiring affected districts to compute certain information only one week after their fiscal year ends.

Grosse Pointe Public School System

Informational Items (Continued)

Once remitted, the state treasurer, through the Office of School Review and Fiscal Accountability (OSRFA), may conclude that the potential for fiscal stress may exist. At that time, the School District may conclude to contract with the ISD (or the authorizing body for charter schools) to review the School 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. As of July 2016, there are 18 school districts identified as being in potential fiscal stress.

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

For the years ended June 30, 2016 and 2015, the General Fund fund balance was 7.12 and 7.65 percent of unrestricted General Fund revenue, respectively. The School District should continue to monitor this figure closely so any required reporting can be done in accordance with the required timelines.

Michigan Education Finance Study

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

The two primary areas of the finance study included the following:

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

Grosse Pointe Public School System

Informational Items (Continued)

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

Recommendations from the study include:

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

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

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

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

Other Suggestions

Wire Transfer Controls and ACH Transactions

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

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

- Most financial institutions will allow a depositor to set limits on how much can be wired and to whom. This may apply to both online banking and transfers made from a physical branch location.

Grosse Pointe Public School System

Informational Items (Continued)

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

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

Federal Programs

New Rules Governing Management of Federal Programs

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

These reforms impact three key areas of federal grants management:

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

The School District has historically been above the new \$750,000 threshold. However, from time to time, depending upon the level of federal spending, the School District may drop below the audit requirement threshold. This year the School District's federal expenditures were below the required threshold and a single audit was not required to be performed. District monitoring of federal program expenditures will be important to ensure compliance with the audit requirement each year.

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Informational Items (Continued)

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

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

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

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Informational Items (Continued)

Written Procedures for Grants - Required for District Federal Grant Participation

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

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

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

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Informational Items (Continued)

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

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

Child Nutrition Programs

Changes in Application Review Requirements

In an effort to decrease errors in the eligibility determination process for Child Nutrition Programs, the Healthy, Hunger-Free Kids Act of 2010 requires that certain local education agencies (LEAs) conduct a second, independent review of applications for free and reduced price meal benefits before households are notified of eligibility determinations. Effective beginning with the 2014-2015 school year, LEAs that demonstrate high levels of, or high risk for administrative error associated with certification, verification, and other administrative processes are required to conduct an independent review of the initial eligibility determinations for free and reduced price school meal applications for accuracy.

There are two criteria for the selection of LEAs demonstrating a high level of, or at risk for, certification errors:

1. All LEAs with 10 percent or more of certification/benefit issuances in error, as determined by the state agency during an administrative review; and
2. LEAs that the state agency considers at risk for certification error but not selected under criterion one; this criterion will be determined by the state agency.

The Michigan Department of Education, Office of School Support Services issued guidance related to this requirement as well as its impact on the verification process. We recommend the School District review its processes related to eligibility determination and verification in conjunction with the MDE and USDA guidance noted below:

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Informational Items (Continued)

For MDE guidance related to the independent review of school meal applications and steps to complete verification, please see:

www.michigan.gov/documents/mde/1_Steps_to_Complete_Verification_469554_7.doc

For USDA Q&A related to the independent review of applications requirement, please see:

<http://www.fns.usda.gov/sites/default/files/SP44-2014os.pdf>

Paid Lunch Equity

School program regulations at 7 CFR 210.14(e) require school food authorities (SFAs) participating in the National School Lunch Program to ensure sufficient funds are provided to the nonprofit school food service account for meals served to students not eligible for free or reduced price meals. There are two ways to meet this requirement: either through the prices charged for “paid” meals or through other non-federal sources provided to the nonprofit school food service account.

The following is a link to a USDA memorandum which provides guidance on the calculations SFAs must make in order to ensure they are in compliance with these requirements for School Year (SY) 2016-2017. In addition, the SY 2016-2017 Paid Lunch Equity tool to assist SFAs as they make these required calculations is attached to the memorandum. We recommend the School District review the paid lunch equity requirements and utilize the PLE Tool to determine whether a lunch price increase or nonfederal funding contribution is required for the 2017 fiscal year.

<http://www.fns.usda.gov/paid-lunch-equity-school-year-2016-2017-calculations-and-tool>

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

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