



STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

GRETCHEN WHITMER
GOVERNOR

RACHAEL EUBANKS
STATE TREASURER

NUMBERED LETTER 2023-1

Issued By: Local Audit and Finance Division
Bureau of Local Government and School Services

Effective Date: November 2, 2023 for fiscal years ending June 30, 2024

2023-1 Bonded Construction Fund and Sinking Fund Audits
(Replaces Bulletin 7 and Numbered Letter 2004-4)

Intended Audience: Chief Administrative Officers, Finance Directors, Bond Counsel, Financial Advisors, Certified Public Accountants, Municipal Organizations, State Agencies, and Interested Parties.

Municipalities Impacted: School Districts

Summary: Numbered Letter 2023-1 includes statutory changes made to Sinking Funds resulting from Public Act 26 of 2023 and creates a single source of information by replacing Bulletin 7 (last revised 2017) and Numbered Letter 2004-4. We have also incorporated changes to submitting Bonded Construction Fund Audits. Our goals with this revision include increasing transparency, improving the overall user experience, educating filers, and improving internal efficiencies.

[Section 1351a](#) (Bonded Construction Funds) and [Section 1212](#) (Sinking Funds) of Public Act 451 of 1976, the Revised School Code, requires a school district that issues bonds or levies a sinking fund tax to have an independent audit, using generally accepted accounting standards.

1. Allowable Use of Bonded Construction Proceeds and Sinking Fund Monies:

- a. Should questions arise about allowable uses, the Department of Treasury highly recommends the school district obtain an opinion letter from its bond counsel. Treasury does not issue pre-approval or opinion letters as to permissible usage so as not to compromise its statutory role to determine from the audit report that the funds were used for the purpose authorized under the law. Please note that from 1995-2004 Treasury issued pre-approval or opinion letters for Sinking Funds, but this practice ended June 25, 2004, with the issuance of Numbered Letter 2004-4. The prohibition of this practice will continue with Numbered Letter 2023-1.

2. Bonded Construction Fund (BCF) Audits

- a. The objective of the BCF audit is to determine if the bond proceeds have been expended in accordance with the stated purposes for which the bonds were authorized and to render an opinion regarding such usage. Bond proceeds can only be used for projects stated in the ballot language. The school district is not required to complete all projects stated in the ballot language. BCF audits can be completed on either an annual basis or a cumulative basis after the completion date. A separate audit opinion for the BCF audit is not expected. As all school districts in Michigan must be audited following Government Auditing Standards, the report letters already issued by the auditor in conjunction with the financial statement and single audits (if applicable), will meet the reporting requirement for the BCF audit.
- b. The completion date for BCF audit purposes shall be the **later** of the following:
 1. June 30 immediately following the date of the [Certificate of Substantial Completion](#). If more than one certificate is issued because of multiple projects under one bond issue, the date of the last project certificate should be used.

OR

2. June 30 immediately following the date when 95% or more of the bond proceeds have been expended.

Option #2 typically occurs when a substantial portion of the bonded project is to be used for equipment, computers, furniture, or renovations not requiring an architect. The school district must be able to substantiate this date. **In a change from prior Treasury guidelines, school districts no longer need to formally request an audit extension from Treasury should option #2 be applicable.**

- c. BCF audits may combine more than one series of bonds if the series being audited were for the same project approved by school electors at the same election. A “project” would include everything approved at a single election, so work done at multiple buildings could be construed as a single “project” if the funding was approved by the electors at the same time. **In a change from prior Treasury guidelines, school districts no longer need to formally request approval from Treasury to combine more than one series into a BCF audit.**
- d. BCF audits **must** include the following disclosures in the notes of their annual audited financial statements (assuming the school district has complied):
 1. If audited on an annual basis, then the first disclosure would appear in the notes each year the BCF is open. The second disclosure would only appear in the notes in the final year of the BCF.

2. If audited on a cumulative basis, then both the first and second disclosure would only appear in the notes in the final year of the BCF.

The Capital Projects Fund includes capital project activities funded with bonds. For this capital project, the school district has complied with the applicable provisions of Section 1351a of the Revised School Code. The fund is not yet considered substantially complete and a subsequent year audit is expected (if applicable).

Beginning with the year of bond issuance, the school district has reported the annual construction activity in the Capital Projects Fund. The project for which the _____ (name, describe) Bonds, Series I (or more series if applicable), were issued was considered complete on June 30, 20xx (June 30 immediately following date of Certificate of Substantial Completion or 95% of proceeds expended) and the cumulative expenditures recognized for the construction period were \$_____.

3. If the compliance testing is done by a different audit firm than the firm auditing the annual financial statements, then the financial statement auditors would not include these disclosures. In lieu of these disclosures, the compliance testing auditors would provide a **compliance testing letter** to be included in the submission to the [Michigan Department of Education](https://www.michigan.gov/education), with the audited financial statements which includes the following:
 - i. Compliance Testing Audit Firm Name
 - ii. School District Name
 - iii. Fund Name
 - iv. Title of Bonds (list all series)
 - v. Amount of Bond Issuance
 - vi. Fiscal Year(s) Covered
 - vii. Completion Date (if applicable)
 - viii. Results of compliance testing. Has school district complied with Section 1351a of the Revised School Code?
 - ix. Total expenditures for which compliance testing was performed (should agree with total expenditures in annual audited financial statements). If the compliance testing was performed on a cumulative basis instead of an annual basis, then the letter should include a breakdown of expenditures for each fiscal year the BCF was open, which again should agree with the annual audited financial statements.
- e. **A certification letter shall be submitted to Treasury by no later than November 1.** If audited on an annual basis, the certification letter should be submitted each year. If audited on a cumulative basis, the certification letter should be submitted in the final year only. The certification letter must be emailed to Treas_MunicipalFinance@Michigan.gov as a single .pdf file. The .pdf file must use a naming convention that begins with the six-digit

municipal code followed by “BondConstAudit.” For example, a BCF audit certification letter filed for the Lansing School District would be named “334020BondConstAudit.pdf.” The email’s subject line must read the same as the file name. The certification letter must contain the following:

1. School District Name
 2. School District Six-Digit Municipal Code
 3. Fiscal Year Ended June 30, 20xx
 4. Title of Bonds (list all series)
 5. Completion Date (*if final year*)
 6. Is completion date based on Certificate of Substantial Completion or 95% of bond proceeds expended? (see #2.b. above)
 7. Is BCF audit done on an annual or cumulative basis? If cumulative provide fiscal years covered.
 8. Was the compliance testing done by a different audit firm than the firm that audited the numbers in the annual audited financial statements? Yes/No
 9. Were the BCF financial statements audited by a different audit firm than the firm that audited the numbers of the remaining funds in the annual audited financial statements? Yes/No
- f. The BCF audit must be submitted as part of the school district’s annual audited financial statements that is submitted to the [Michigan Department of Education](#) (MDE). This will satisfy the requirement to file the BCF audit with Treasury. **In a change from prior Treasury guidelines, Treasury will no longer be accepting BCF audits as they must now all be included as part of or along with the school district’s annual audited financial statements.** We believe this will 1) increase transparency as now all school district audits will be in a single document and 2) provide administrative ease as many school districts have previously requested this option. Should a school district use different audit firms to audit the compliance of the BCF from the financial statements of all the funds of the school district, the BCF audit compliance letter from the separate firm should be combined with and saved behind the annual audited financial statements and submitted as a single .pdf to MDE. Audits submitted to MDE must have a file size of 4 megabytes (MB) or less.
- g. After the school district’s certification letter has been submitted, the school district may receive an additional information request letter from Treasury requesting BCF information for which they will have 30 days to respond. **It is essential for the school district to make sure the annual audited financial statements contain the appropriate BCF disclosures (see #2.d. above).**

3. Sinking Fund (SF) Audits

- a. The SF audit must be submitted as part of the school district’s annual audited financial statements submitted to the [Michigan Department of Education](#).

- b. Sinking Funds authorized 1) Prior to March 29, 2017, 2) Between March 29, 2017 and May 7, 2023, and 3) after May 7, 2023 should not be commingled, but should be accounted for separately in the annual audited financial statements, each with their own balance sheet and statement of revenues, expenditures and changes in fund balance for the fiscal year. March 29, 2017 is the effective date of Public Act 319 of 2016 and May 8, 2023 is the effective date of Public Act 26 of 2023. Each of the three categories has its own allowable uses – see chart below.

Sinking Funds	Prior to 3/29/2017	3/29/2017 to 5/7/2023	After 5/7/2023
Maximum Levy	5 Mills	3 Mills	3 Mills
Maximum Period	20 Years	10 Years	10 Years
*Allowable Use Categories:			
Purchase of Real Estate	Yes	Yes	Yes
New Construction	Yes	Yes	Yes
Repairs	Yes	Yes	Yes
Security Improvements	No	Yes	Yes
Technology	No	Yes	Yes
Student Transportation Vehicles	No	No	Yes
Trucks and Vans	No	No	Yes

**Contact bond counsel for specific allowable uses.*

- c. “Student transportation vehicles” as used in Section 1212 is defined by Treasury to mean school buses or other school-related vehicles that are used to transport students.
- d. SF audits **must** include the following disclosure in the notes of their annual audited financial statements (assuming the school district has complied):

Sinking Funds – The _____ (school district name) Capital Projects Fund records capital project activities funded with Sinking Fund millage. For this (these) fund(s), the school district has complied with the applicable provisions of Section 1212 of the Revised School Code.

If the compliance testing is done by a different audit firm than the firm auditing the annual financial statements, then the financial statement auditors would not include this disclosure. In lieu of this disclosure, the compliance testing auditors would provide a **compliance testing letter** to be submitted in the upload to the [Michigan Department of Education](#) containing the audited financial statements (as described in #2.f. above). The content of the letter must include the following:

- i. Compliance Testing Audit Firm Name
- ii. School District Name
- iii. Fund Name
- iv. Fiscal Year

- v. Results of compliance testing. Has school district complied with Section 1212 of the Revised School Code?
 - vi. Total expenditures for which compliance testing was performed (should agree with total expenditures in annual audited financial statements).
- e. After the school district's annual audited financial statements have been submitted, the school district may receive an additional information request letter from Treasury requesting SF information for which they will have 30 days to respond. **It is essential for the school district to make sure the annual audited financial statements contain the appropriate SF disclosure (see #3.d. above).**

If you have any questions, please email our office at Treas_MunicipalFinance@michigan.gov.