

## **Clio Area Schools**

### **Financial Statements**

**June 30, 2019**



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**Clio Area Schools**  
**Members of the Board of Education and Administration**  
**June 30, 2019**

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**Members of the Board of Education**

Denise Frappier	President
Robert Gaffney	Vice President
Mary Ann Dipzinski	Secretary
Carrie Sekelsky	Treasurer
Rebecca Aaron	Trustee
Laurie Heath	Trustee
Lydia Heine	Trustee

**Administration**

Fletcher Spears III	Superintendent
Stephen Keskes, Ed. S.	Asst. Superintendent for Curriculum And Instruction
Rebekah Silkworth	Asst. Superintendent for Finance

## Independent Auditors' Report

To the Board of Education  
Clio Area Schools  
Clio, Michigan

### ***Report on the Financial Statements***

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Clio Area Schools, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

## ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Clio Area Schools, as of June 30, 2019, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedule of the school district's proportionate share of the net pension liability, schedule of the school district's pension contributions, schedule of the school district's proportionate share of the net OPEB liability, and schedule of the school district's OPEB contributions identified in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information, because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

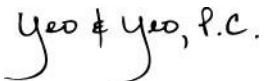
## ***Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Clio Area Schools' basic financial statements. Other supplementary information, as identified in the table of contents, is presented for purpose of additional analysis and is not a required part of the basic financial statements.

The other supplementary information, as identified in the table of contents, is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion the other supplementary information, as identified in the table of contents, is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated August 29, 2019, on our consideration of Clio Area Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Clio Area Schools' internal control over financial reporting and compliance.



Flint, Michigan  
August 29, 2019

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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# Clio Area Schools

*We Are Family*



## Management's Discussion and Analysis For the Year Ended June 30, 2019

The Clio Area School District has chosen to implement the provisions of Governmental Accounting Standards Board *Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*,(GASB 34) with the enclosed financial statements. Our discussion and analysis of Clio Area Schools' financial performance, a GASB 34 requirement, provides an overview of the School District's financial activities for the fiscal year ended June 30, 2019.

GASB 34 and generally accepted accounting principles (GAAP) require the reporting of two types of financial statements: fund financial statements and district-wide financial statements.

### Fund Financial Statements

The fund financial statements provide more detailed information about the School District's funds, focusing on its most significant or "major" funds – not the School District as a whole. The fund-level financial statements are reported on a modified accrual basis. That is, only those assets that are "measurable" and "currently available" are reported, and liabilities are recognized to the extent that they are normally expected to be paid with current financial resources. The School District has two kinds of funds:

- *Governmental Funds*: All of the School District's basic services are provided in governmental funds, which generally focus on (1) how cash and other financial assets that can be readily converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund financial statements provide a detailed short-term view that helps to determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, reconciliations from the fund level statements to the district-wide statements explain the relationship (or differences) between them. The School District's governmental funds include the General Fund, Cafeteria Special Revenue Fund, and Capital Projects Fund.

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*Fletcher Spears III  
Superintendent*

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*Rebekah Silkworth  
Assistant Superintendent for Finance*

*Stephen Keskes  
Assistant Superintendent for Curriculum and  
Instruction*

- *Agency Funds:* The School District is the custodian for assets that belong to others in the student activities agency fund. The School District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The School District excludes these activities from the district-wide financial statements because it cannot use these assets to finance its operations.

## **District-wide Financial Statements**

The District-wide Statement of Net Position and Statement of Activities are reported using the full accrual basis of accounting. With this method, all of the School District's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and current year revenues and expenditures are reported, regardless of when cash is received or paid. These statements provide information about the activities of the School District as a whole, and present a long-term view of the School District's finances. For example, the Statement of Activities details how the School District's services were financed in the short-term and the amount that remains for future spending. The Statement of Net Position aggregates the School District's restricted and unrestricted assets as well as short and long-term obligations recorded in all funds.

## **Financial Position and Results of Operations**

The School District's net position – the difference between assets plus deferred inflows and liabilities plus deferred outflows, as reported in the Statement of Net Position, is one way to measure the School District's financial health, or financial position. Over time, increases or decreases in the School District's net position, as reported in the Statement of Activities, is one indicator of whether its financial health is improving or deteriorating, respectively. The relationship between revenues and expenses indicates the School District's operating results. To assess the School District's overall health, it is important to consider additional non-financial factors such as the quality of educational services provided, the condition of school buildings and facilities, the safety of the schools, and other non-financial factors.

## **Summary of Net Position**

The School District's net position totaled \$ (39,166,637) at June 30, 2019. Of this amount, \$ (50,369,032) was unrestricted. Restricted net assets are reported separately to show legal constraints from debt covenants and legislation that limits the School District's ability to use this net position for day-to-day operations.

The following is a summary of the School District's net position at June 30, 2019:

	<u>June 30, 2019</u>
<b>Assets</b>	
Current assets	\$ 11,007,081
Capital assets, net of depreciation	<u>10,810,957</u>
Total assets	<u><u>21,818,038</u></u>
<b>Deferred outflows of resources</b>	
Deferred amount of pension expense related to net pension and OPEB liabilities	<u>17,405,776</u>
Total deferred outflows of resources	<u>17,405,776</u>
<b>Total assets and deferred outflows of resources</b>	<b><u>\$ 39,223,814</u></b>
<b>Liabilities</b>	
Current liabilities	\$ 5,798,744
Long-term liabilities	<u>62,083,163</u>
Total liabilities	<u>67,881,907</u>
<b>Deferred inflows of resources</b>	
Deferred amount on net pension and OPEB liabilities	<u>10,508,544</u>
Total liabilities and deferred inflows of resources	78,390,451
<b>Net Position</b>	
Net investment in capital assets	10,616,053
Restricted for food service	586,342
Unrestricted	<u>(50,369,032)</u>
Total net position	<u>(39,166,637)</u>
<b>Total liabilities and net position</b>	<b><u>\$ 39,223,814</u></b>

## **Analysis of Financial Position**

During fiscal year ended June 30, 2019, the School District's net position increased by \$ 132,626. Increase in net position for the year was primarily attributable to net change in the district's share of State of Michigan unfunded pension and OPEB liabilities. A few of the significant factors affecting net position during the year are discussed below:

### **A. Governmental Fund Operations**

In the School District's governmental funds, revenues exceeded expenditures by \$ 1,124,404 for the fiscal year ended June 30, 2019. See the section entitled Major Governmental Funds Budgeting and Operating Highlights below for further discussion of governmental fund operations.

### **B. Depreciation Expense**

The provisions of GASB 34 require the School District to maintain a record of annual depreciation expense and accumulated depreciation. The net increase in accumulated depreciation is a reduction in net position. Depreciation expense is recorded using a straight-line method over the estimated useful lives of the assets. In accordance with generally accepted accounting principles, depreciation expense is recorded based on the original cost of the asset less an estimated salvage value. For the year ended June 30, 2019, the depreciation expense was \$ 1,065,433.

### **C. Capital Acquisitions**

Additions to capital outlay for the year ended June 30, 2019, totaled \$ 1,367,235. Capital outlay was offset by current year depreciation expense of \$ 1,065,433, creating a net position increase from capital outlays of \$ 301,802.

### **D. Other Changes**

Net change between current year and prior year deferred outflow of resources related to the net pension liability and OPEB liability totaling \$ 786,351 are shown on the district-wide statements that were not expended on the fund statements as they were not due and payable in the current period.

## **Results of Operations**

The results of this year's operations for the School District as a whole are reported in the Statement of Activities. A summary of the district-wide results of operations for the year ended June 30, 2019 is as follows:

### **Revenue**

#### General revenue:

Property taxes, levied for general purposes	\$ 2,773,765
Property taxes, levied for capital projects	1,025,498
State of Michigan aid, unrestricted	20,151,142
Interest and investment earnings	0
Insurance Recoveries	4,542
Gain on Sale of Capital Assets	400
Other general revenue	<u>324,641</u>
Total general revenue	<u>24,279,988</u>

#### Program revenue:

Charges for services	1,105,392
Operating grants and contributions	<u>6,730,826</u>
<b>Total revenue</b>	<b><u>32,116,206</u></b>

### **Expenses**

Instruction	18,812,372
Supporting services	11,335,373
Food services	1,299,801
Community service	529,043
Interest and fiscal charges on long-term debt	<u>6,991</u>
<b>Total expenses</b>	<b><u>31,983,580</u></b>

<b>Change in net position</b>	<b>132,626</b>
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<b>Net position – July 1, 2018 (restated)</b>	<b><u>(39,299,263)</u></b>
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<b>Net position – June 30, 2019</b>	<b><u>\$ (39,166,637)</u></b>
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## **Governmental Funds Financial Highlights**

The General Fund is reported separately as a major fund in the fund financial statements. Funds reported as "Nonmajor Governmental Funds" in the fund financial statements include the Cafeteria Fund, Transportation Fund, and Capital Project Fund. The annual fund financial statements provide the following insights about the results of this year's operations:

### **A. General Fund**

The General Fund experienced an increase in fund equity of \$ 611,546, or 2% of expenditures, during the year ended June 30, 2019. Ending fund equity in the General Fund was \$ 4,088,576 on June 30, 2019, which equates to 14.2% of expenditures for the year. This level was up from \$ 3,477,030 on June 30, 2018.

### **B. Nonmajor Governmental Funds**

Nonmajor governmental funds experienced an increase in fund equity of \$ 512,858 during the year. The Cafeteria Special Revenue Fund balance increased from the prior year. Revenues exceeded expenditures by \$ 23,167, resulting in ending fund equity of \$586,342 or 46.35% of expenditures for the year. Capital Projects funds experienced an increase in fund equity of \$ 489,691, resulting in ending fund equity of \$ 533,419.

## **Major Governmental Funds Budgeting and Operating Highlights**

The School District's budgets are prepared according to Michigan law and are initially adopted prior to July 1 of each year, based on facts and assumptions known at the time of the initial budget preparation. It is expected that there will be changes between the initial budget and subsequent budgets, as many factors are not known at the time of adoption of the initial budget. Some of these factors include enrollment figures and resultant staffing requirements, staffing changes that take place during the year, state school aid adjustments, grant allocations, and other unforeseen items. As a matter of practice, the School District amends its budget two times during the fiscal year to adjust for these changes. The School District prepares budgets for the General Fund, Cafeteria Special Revenue Fund, Transportation Fund, and Capital Projects Fund.

### **A. General Fund**

In the General Fund, actual revenue was \$ 29.27 million. This is below the original budget estimate of \$ 29.28 million and above the final budgeted amount of \$ 29.17 million, a variance of \$ 104,389 or .36%. The actual expenditures of the General Fund were \$ 28.76 million. This is below the original budget estimate of \$ 29.17 million and below the final budgeted amount of \$ 28.87 million, a variance of \$ 106,813, or 0.37%.

The variances between the actual revenues and the original and final amended budgets in the General Fund are due primarily to the following:

- Increased revenue from fees and services.
- Increase in expected revenue from local property taxes.
- Increase in revenue from state sources.
- Increase in revenue from inter district sources.

The variances between the actual General Fund expenditures and the original and final expenditure budgets include the following:

- Employee salary and benefit adjustments due to varied retirement rates and personnel changes.
- Adjustments for federal and state grant expenditures.
- Decreased expenditures in teaching supplies, transportation diesel fuel and supplies.

The General fund revenues and other financing sources exceeded expenditures by \$ 611,546 for the year ended June 30, 2019, which resulted in a 2.4% increase in fund equity. The ending fund equity in the General Fund was \$ 4,088,576 at June 30, 2019, which equates to 14.2% of expenditures for the year. This level was up from \$ 3,477,030 on June 30, 2018.

**B. Capital Projects Funds**

The Capital Projects Funds receive revenues from property taxes and investment income. Expenditures take the form of capital improvement projects for major repairs and improvements to the School District's facilities. The School District's Capital Projects Funds is comprised of the Sinking Fund that was passed in 2001 and reauthorized May 4, 2010.

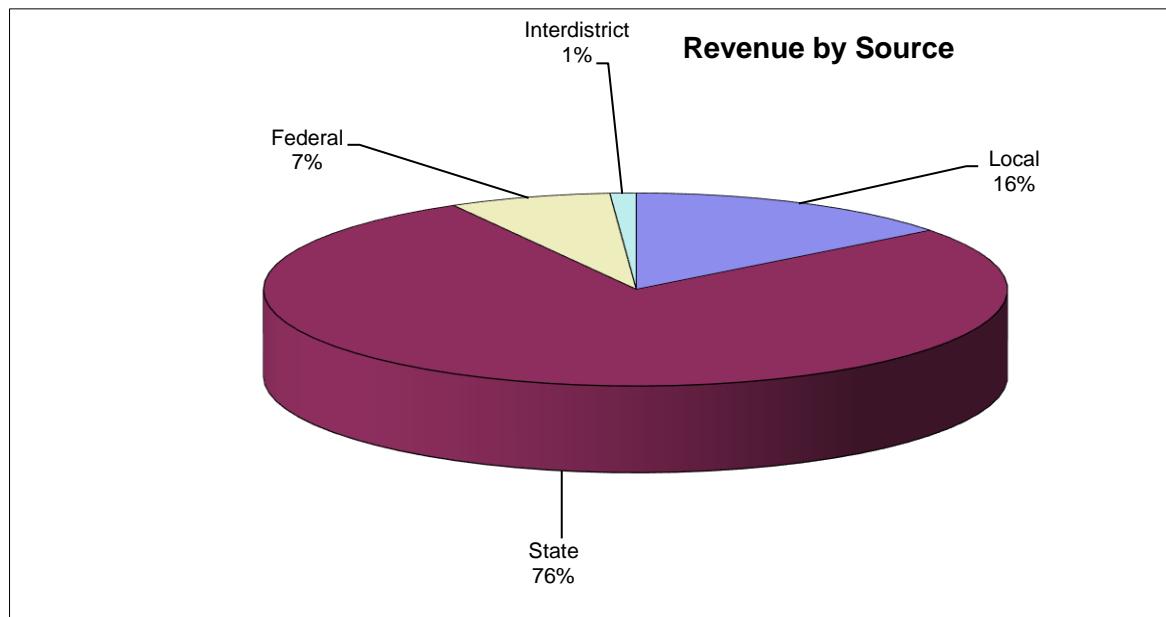
During the year, the Capital Projects funds realized \$ 1,025,498 in revenues and \$ 535,807 in expenditures, resulting in a net increase in fund equity of \$ 489,691, resulting in an ending fund equity of \$ 533,419 at June 30, 2019.

**C. Transportation Services Fund**

A new fund was created in fiscal year 2016/2017 to separate from general fund financial statements the revenues and costs generated from the district assisting other school districts and municipalities with their school bus fleet maintenance and repairs. This fund reported revenues of \$ 502,607 generated from fees and expenditures of \$ 427,109, allowing \$ 75,498 to be transferred to the general fund.

## **Governmental Fund Revenues**

Revenues for all governmental funds totaled \$ 32.1 million for 2018/2019. The following graph illustrates the School District's revenues by source as a percentage of total revenue:



### **A. Unrestricted State Aid**

The School District is predominantly funded by State Aid. Unrestricted state aid is determined by the following three variables: (1) State of Michigan student foundation allowance; (2) student enrollment for the year, blended at 90 percent of the current year's fall student count and 10 percent of the previous school year's winter student count; and (3) the School District's non-homestead property tax levy.

Annually, the State of Michigan establishes the per student foundation allowance. For the year ended June 30, 2019, the foundation allowance for Clio Area Schools was established at \$ 7,871, an increase of \$ 240 per student from the 2017/2018 foundation allowance.

Student enrollment for state aid for the 2018/2019 year was 2,976, a decrease of 120 full time equated students from 2017/2018.

The following schedule summarizes the School District's blended student enrollment in full-time equivalencies and per student Foundation Allowance for the current year and the previous nine years:

<u>Year</u>	<u>Student Enrollment</u>	<u>Change from Prior Year</u>	<u>Foundation Allowance</u>	<u>Change from Prior Year</u>
2018/2019	2,976	(120)	\$7,871	\$ 240
2017/2018	3,096	(23)	7,631	120
2016/2017	3,119	(50)	7,511	120
2015/2016	3,169	(27)	7,391	265
2014/2015	3,196	(90)	7,126	100
2013/2014	3,286	(206)	7,026	60
2012/2013	3,492	(153)	6,966	120
2011/2012	3,645	(18)	6,846	(470)
2010/2011	3,663	216***	7,316**	-0-
2009/2010	3,447	8	7,316*	-0-
2008/2009	3,439	(60)	7,316	112
2007/2008	3,499	(83)	7,204	119
2006/2007	3,582	46	7,085	210
2005/2006	3,536	(27)	6,875	175
2004/2005	3,563	(27)	6,700	-0-
2003/2004	3,590	21	6,700	-0-

\*The district realized a \$ 154 proration in 2009/2010

\*\*The district realized a \$ 170 proration in 2010/2011

\*\*\*The district started a Global Academy in the spring of 2010 that significantly increased student enrollment and provided an alternative educational experience for secondary students.

\*\*\*\*The district started a home school partnership program in 2017-2018. This unique educational entity provides opportunities for students both through the partnership and the rest of the district to take virtual classes that are not offered through traditional vendors.

## B. Property Taxes

The School District is authorized to levy up to 18 mils of property taxes on all non-primary residence property located within the School District for General Fund operations. Commercial personal property is levied at 6 mils. The levy is assessed on the Taxable Value of the property. The increase in taxable value is limited to the lesser of the inflation rate or 5%. When a property is sold, the Taxable

Valuation of the sold property is readjusted to the State Equalized Value, which is approximately 50% of market value. The School District levied 18.0000 mills for operations during the 2018/2019 and property tax revenue was \$ 2.77 million.

The School District's sinking funds are used for the repairs and replacement of buildings and sites. In 2010, the School District's voters reauthorized a 2.0 mill ten-year levy. The School District levied 1.9958 mills for the sinking fund during the 2018/2019 year and property tax revenue was \$ 1.03 million.

#### Governmental Fund Expenditures

The following chart illustrates that the General Fund comprises 92.8% of all expenditures within the governmental funds of the School District. As of June 30, 2019, expenditures and other financing uses totaled \$ 30.9 million for all School District programs. The ending fund equity for all funds was \$ 5.19 million.

	Expenditures & Other Uses (In millions)	Percent of Total
General Fund	\$ 28.76	92.8%
Other Governmental Funds	<u>2.23</u>	<u>7.2%</u>
Total	<u><u>\$ 30.99</u></u>	100.0%

#### Capital Asset and Debt Administration

##### A. Capital Assets

At June 30, 2019, the School District had \$ 29.73 million invested in land and buildings, furniture and equipment, buses and other vehicles, and construction in progress. Of this amount, \$ 18.92 million has been depreciated, which resulted in a net book value of \$ 10.81 million. The majority of the buildings were constructed in the 1950's and 1960's. The School District is committed to timely repairs and maintenance of its facilities. Computer purchases fall below the School District's capitalization threshold of \$ 5,000 and are expensed accordingly.

##### Capital Assets at June 30, 2019

	Amount (In millions)
Land, buildings and additions	\$ 24.85
Equipment and furniture	2.56
Buses and other vehicles	<u>2.32</u>
Total	<u>\$ 29.73</u>
Less accumulated depreciation	<u>(18.92)</u>
Net capital assets	<u><u>\$ 10.81</u></u>

**B. Long-Term Debt**

At June 30, 2019, the School District had no outstanding bonded debt.

For more detailed information regarding capital assets and debt administration, please review the Notes to Financial Statements located in the financial section of this report.

**Conditions that will Significantly Affect Financial Position and Results of Operations in Future Years**

On May 4, 2010, the voters of the School District reauthorized a 2.0 mills sinking fund millage for a period of ten years. The total revenue to be generated will be approximately \$ 9.2 million dollars, down from an initial projection of \$ 10.2 million dollars. The reduction in anticipated revenue is a result of the loss of tax base due to depressed property values. The funds generated from this levy are necessary to keep facilities in good repair and to enable the district to use more general fund monies for operations. The district also passed a restoration of the 19.5067 non-homestead millage rate on November 5, 2013 which permits the district to levy the full allowable millage of 18 mills along with providing protection from future Headlee millage rate reductions. The State of Michigan continues to experience reduced birth rates, which has had a negative impact on student enrollment in Genesee County. Increases in retirement rates, moderate increases in per pupil funding, and increases in health care will also have an impact on the district's financial stability.

**Adoption of New Accounting Standards**

The District adopted GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements* improves the information that is disclosed in notes to the District's financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities districts should include when disclosing information related to debt. It requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. It will also require that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt. The requirements of this Statement are effective for the fiscal year ending June 30, 2019.

**Contacting the District's Financial Management**

This financial report is designed to provide our citizens and taxpayers with a general overview of the School District's finances. If you have questions about this report or need additional information, contact the business department at Clio Area Schools, 430 N. Mill Street, Clio, Michigan, 48420 or by telephone at 810-591-0500.

## BASIC FINANCIAL STATEMENTS

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**Clio Area Schools**  
**Statement of Net Position**  
**June 30, 2019**

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	Governmental Activities
<b>Assets</b>	
Cash	\$ 5,937,143
Accounts receivable	150,253
Due from other governmental units	4,810,947
Inventory	32,370
Prepaid items	76,368
Capital assets not being depreciated	627,628
Capital assets - net of accumulated depreciation	<u>10,183,329</u>
 Total assets	 <u>21,818,038</u>
 <b>Deferred outflows of resources</b>	
Deferred amount relating to the net pension liability	15,148,017
Deferred amount relating to the net OPEB liability	<u>2,257,759</u>
 Total deferred outflows of resources	 <u>17,405,776</u>
 Total assets and deferred outflows of resources	 <u>39,223,814</u>

See Accompanying Notes to the Financial Statements

**Clio Area Schools**  
**Statement of Net Position**  
**June 30, 2019**

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	Governmental Activities
<b>Liabilities</b>	
Accounts payable	\$ 358,277
State aid anticipation note payable	3,000,000
Due to other governmental units	320,546
Accrued salaries payable	2,089,581
Unearned revenue	30,340
Long-term liabilities	
Net pension liability	49,040,130
Net OPEB liability	12,718,938
Debt due within one year	121,793
Debt due in more than one year	<u>202,302</u>
Total liabilities	<u>67,881,907</u>
<b>Deferred inflows of resources</b>	
Deferred amount relating to the net pension liability	7,084,744
Deferred amount relating to the net OPEB liability	<u>3,423,800</u>
Total deferred inflows of resources	<u>10,508,544</u>
<b>Net Position</b>	
Net investment in capital assets	10,616,053
Restricted for	
Food service	586,342
Unrestricted (deficit)	<u>(50,369,032)</u>
Total net position	<u>\$ (39,166,637)</u>

See Accompanying Notes to the Financial Statements

**Clio Area Schools**  
**Statement of Activities**  
**For the Year Ended June 30, 2019**

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	<b>Program Revenues</b>			<b>Net (Expense) Revenue and Changes in Net Position</b>
	<b>Expenses</b>	<b>Charges for Services</b>	<b>Operating Grants and Contributions</b>	
<b>Functions/Programs</b>				
Governmental activities				
Instruction	\$ 18,812,372	\$ -	\$ 5,399,422	\$ (13,412,950)
Supporting services	11,335,373	722,017	295,675	(10,317,681)
Food services	1,299,801	308,172	1,000,694	9,065
Community services	529,043	75,203	35,035	(418,805)
Interest and fiscal charges on long-term debt	6,991	-	-	(6,991)
Total governmental activities	<u>\$ 31,983,580</u>	<u>\$ 1,105,392</u>	<u>\$ 6,730,826</u>	<u>(24,147,362)</u>
General revenues				
Property taxes, levied for general purposes				2,773,765
Property taxes, levied for sinking fund				1,025,498
State aid - unrestricted				20,151,142
Gain on sale of capital assets				400
Other				<u>324,641</u>
Total general revenues				<u>24,279,988</u>
Change in net position				132,626
Net position - beginning				<u>(39,299,263)</u>
Net position - ending				<u>\$ (39,166,637)</u>

See Accompanying Notes to the Financial Statements

**Clio Area Schools**  
**Governmental Funds**  
**Balance Sheet**  
**June 30, 2019**

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	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>Assets</b>			
Cash	\$ 4,718,134	\$ 1,219,009	\$ 5,937,143
Accounts receivable	150,253	-	150,253
Due from other funds	44,748	4,172	48,920
Due from other governmental units	4,759,368	51,579	4,810,947
Inventory	13,735	18,635	32,370
Prepaid items	<u>76,368</u>	<u>-</u>	<u>76,368</u>
Total assets	<u>\$ 9,762,606</u>	<u>\$ 1,293,395</u>	<u>\$ 11,056,001</u>

See Accompanying Notes to the Financial Statements

**Clio Area Schools**  
**Governmental Funds**  
**Balance Sheet**  
**June 30, 2019**

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	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>Liabilities</b>			
Accounts payable	\$ 243,058	\$ 115,219	\$ 358,277
State aid anticipation note payable	3,000,000	-	3,000,000
Due to other funds	4,172	44,748	48,920
Due to other governmental units	320,546	-	320,546
Accrued salaries payable	2,089,581	-	2,089,581
Unearned revenue	<u>16,673</u>	<u>13,667</u>	<u>30,340</u>
 Total liabilities	 <u>5,674,030</u>	 <u>173,634</u>	 <u>5,847,664</u>
 <b>Fund Balance</b>			
Non-spendable			
Inventory	13,735	18,635	32,370
Prepaid items	76,368	-	76,368
Restricted for food service	-	567,707	567,707
Restricted for capital projects	-	533,419	533,419
Assigned for 2019-20 excess budgeted expenditures over revenues	503,900	-	503,900
Unassigned	<u>3,494,573</u>	<u>-</u>	<u>3,494,573</u>
 Total fund balance	 <u>4,088,576</u>	<u>1,119,761</u>	<u>5,208,337</u>
 Total liabilities and fund balance	 <u>\$ 9,762,606</u>	<u>\$ 1,293,395</u>	<u>\$ 11,056,001</u>

See Accompanying Notes to the Financial Statements

**Clio Area Schools**  
**Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position**  
**June 30, 2019**

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<b>Total fund balances for governmental funds</b>	\$ 5,208,337
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Total net position for governmental activities in the statement of net position is different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Capital assets not being depreciated	627,628
Capital assets - net of accumulated depreciation	10,183,329

Deferred outflows (inflows) of resources

Deferred inflows of resources resulting from the net pension liability	(7,084,744)
Deferred outflows of resources resulting from the net pension liability	15,148,017
Deferred inflows of resources resulting from the net OPEB liability	(3,423,800)
Deferred outflows of resources resulting from the OPEB liability	2,257,759

Long-term liabilities applicable to governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities.

Net pension liability	(49,040,130)
Net OPEB liability	(12,718,938)
Compensated absences	(129,191)
Other loans payable and liabilities	<u>(194,904)</u>

<b>Net position of governmental activities</b>	<b><u>\$ (39,166,637)</u></b>
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**Clio Area Schools**  
**Governmental Funds**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**For the Year Ended June 30, 2019**

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	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>Revenues</b>			
Local sources	\$ 3,253,535	\$ 1,836,277	\$ 5,089,812
State sources	24,369,372	62,031	24,431,403
Federal sources	1,267,136	938,663	2,205,799
Interdistrict sources	<u>384,250</u>	-	<u>384,250</u>
Total revenues	<u>29,274,293</u>	<u>2,836,971</u>	<u>32,111,264</u>
<b>Expenditures</b>			
Current			
Education			
Instruction	17,874,039	-	17,874,039
Supporting services	10,275,465	427,109	10,702,574
Food services	-	1,264,899	1,264,899
Community services	514,838	-	514,838
Facilities acquisition	-	535,807	535,807
Debt service			
Principal	92,654	-	92,654
Interest and other expenditures	<u>6,991</u>	-	<u>6,991</u>
Total expenditures	<u>28,763,987</u>	<u>2,227,815</u>	<u>30,991,802</u>
Excess of revenues over expenditures	<u>510,306</u>	<u>609,156</u>	<u>1,119,462</u>

See Accompanying Notes to the Financial Statements

**Clio Area Schools**  
**Governmental Funds**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**For the Year Ended June 30, 2019**

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	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>Other Financing Sources (Uses)</b>			
Insurance recoveries	4,542	-	4,542
Proceeds from sale of capital assets	400	-	400
Transfers in	96,298	-	96,298
Transfers out	-	(96,298)	(96,298)
Total other financing sources (uses)	<u>101,240</u>	<u>(96,298)</u>	<u>4,942</u>
Net change in fund balance	611,546	512,858	1,124,404
Fund balance - beginning	<u>3,477,030</u>	<u>606,903</u>	<u>4,083,933</u>
Fund balance - ending	<u>\$ 4,088,576</u>	<u>\$ 1,119,761</u>	<u>\$ 5,208,337</u>

See Accompanying Notes to the Financial Statements

**Clio Area Schools**  
**Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances**  
**of Governmental Funds to the Statement of Activities**  
**For the Year Ended June 30, 2019**

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<b>Net change in fund balances - total governmental funds</b>	\$ 1,124,404
Total change in net position reported for governmental activities in the statement of activities is different because	
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	
Depreciation expense	(1,065,433)
Capital outlay	763,631
Expenses are recorded when incurred in the statement of activities.	
Compensated absences	3,721
The statement of net position reports the net pension liability and deferred outflows of resources and deferred inflows related to the net pension liability and pension expense. However, the amount recorded on the governmental funds equals actual pension contributions	
Net change in net pension liability	(5,700,965)
Net change in the deferrals of resources related to the net pension liability	4,398,768
The statement of net position reports the net OPEB liability and deferred outflows of resources and deferred inflows related to the net OPEB liability and OPEB expense. However, the amount recorded on the governmental funds equals actual OPEB contributions	
Net change in net OPEB liability	2,077,406
Net change in the deferrals of resources related to the net OPEB liability	(1,561,560)
Bond and note proceeds and capital leases are reported as financing sources in the governmental funds and thus contribute to the change in fund balance. In the statement of net position, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net position. Also, governmental funds report the effect of premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. When debt refunding occurs, the difference in the carrying value of the refunding debt and the amount applied to the new debt is reported the same as regular debt proceeds or repayments, as financing sources or expenditure in the governmental funds. However, in the statement of net position, debt refunding may result in deferred inflows of resources or deferred outflows of resources, which are then amortized in the statement of activities.	
Repayments of long-term debt	92,654
<b>Change in net position of governmental activities</b>	<b>\$ 132,626</b>

See Accompanying Notes to the Financial Statements

**Clio Area Schools**  
**Fiduciary Funds**  
**Statement of Assets and Liabilities**  
**June 30, 2019**

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	Agency Fund
<b>Assets</b>	
Cash	<u>\$ 236,175</u>
Total assets	<u>\$ 236,175</u>
<b>Liabilities</b>	
Due to student activities	<u>\$ 236,175</u>
Total liabilities	<u>\$ 236,175</u>

See Accompanying Notes to the Financial Statements

**Clio Area Schools**  
**Notes to the Financial Statements**  
**June 30, 2019**

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**Note 1 - Summary of Significant Accounting Policies**

The accounting policies of Clio Area Schools (School District) conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the School District's significant accounting policies:

**Reporting Entity**

The School District is governed by an elected seven-member Board of Education. The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the School District's reporting entity, and which organizations are legally separate component units of the School District. The School District has no component units.

**District-wide Financial Statements**

The School District's basic financial statements include both district-wide (reporting for the district as a whole) and fund financial statements (reporting the School District's major funds). The district-wide financial statements categorize all nonfiduciary activities as either governmental or business type. All of the School District's activities are classified as governmental activities.

The statement of net position presents governmental activities on a consolidated basis, using the economic resources measurement focus and accrual basis of accounting. This method recognizes all long-term assets and receivables as well as long-term debt and obligations. The School District's net position is reported in three parts (1) net investment in capital assets, (2) restricted net position, and (3) unrestricted net position.

The statement of activities reports both the gross and net cost of each of the School District's functions. The functions are also supported by

general government revenues (property taxes and certain intergovernmental revenues). The statement of activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (property taxes, state sources and federal sources, interest income, etc.). The School District allocates indirect costs, including depreciation expense, the change in compensated absences payable, and expenses associated with changes in the net pension liability for presentation the statement of activities. In creating the district-wide financial statements the School District has eliminated interfund transactions.

The district-wide focus is on the sustainability of the School District as an entity and the change in the School District's net position resulting from current year activities.

**Fund Financial Statements**

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the district-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related

**Clio Area Schools**  
**Notes to the Financial Statements**  
**June 30, 2019**

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to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, unrestricted state aid, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

Fiduciary fund statements also are reported using the economic resources measurement focus and the accrual basis of accounting.

The School District reports the following major governmental funds:

**General Fund** – The General Fund is used to record the general operations of the School District pertaining to education and those operations not required to be provided for in other funds.

Additionally, the School District reports the following fund types:

**Special Revenue Funds** – Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes. The School District's Special Revenue Fund includes the Food Service Fund and Transportation Fund. Operating deficits generated by these activities are generally covered by a transfer from the General Fund.

**Sinking Fund** – The Sinking Fund is used to record the sinking fund property tax levy and other revenue and the disbursement of invoices specifically for acquiring new school sites, construction, additions or major replacements to school buildings.

**Fiduciary Funds** – Fiduciary Funds are used to account for assets held by the School District in a trustee capacity or as an agent. The Agency Fund is custodial in nature (assets equal liabilities) and does not involve the measurement of results of operations. This fund is used to record the transactions of student groups for school and school-related purposes.

**Assets, Liabilities, and Equity**

**Receivables and Payables** – Generally, outstanding amounts owed between funds are classified as "due from/to other funds". These amounts are caused by transferring revenues and expenses between funds to get them into the proper reporting fund. These balances are paid back as cash flow permits.

All trade and property tax receivables are shown net of an allowance for uncollectible amounts. The School District considers all accounts receivable to be fully collectible; accordingly, no allowance for uncollectible amounts is recorded.

Property taxes collected are based upon the approved tax rate for the year of levy. For the fiscal year ended June 30, 2019, the rates are as follows per \$ 1,000 of assessed value.

General Fund	
Non-principal residence exemption	18.00000
Commercial personal property	6.00000
Sinking Fund	1.99580

School property taxes are assessed and collected in accordance with enabling state legislation by cities and townships within the School District's boundaries. Approximately 99% of the School District's tax roll lies within Genesee County.

The property tax levy runs from July 1 to June 30. Property taxes become a lien on the first day of the levy year and are due on or before September 14 or February 14. Collections are forwarded to

**Clio Area Schools**  
**Notes to the Financial Statements**  
**June 30, 2019**

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the School District as collected by the assessing municipalities. Real property taxes uncollected as of March 1 are purchased by the Counties of Genesee and Saginaw and remitted to the School District by June 30.

Inventories and Prepaid Items – Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years. For such payments in governmental funds the School District follows the consumption method, and they therefore are capitalized as prepaid items in both district-wide and fund financial statements.

Capital Assets – Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair market value at the date of donation. The School District defines capital assets as assets with an initial individual cost in excess of \$ 5,000. Costs of normal repair and maintenance that do not add to the value or materially extend asset lives are not capitalized. The School District does not have infrastructure assets. Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and additions	5-50 years
Equipment and furniture	3-20 years
Buses and other vehicles	5-10 years

Deferred Outflows of Resources – A deferred outflow of resources is a consumption of net position by the government that is applicable to a future reporting period. For district-wide financial statements, the School District reports deferred outflows of resources as a result of pension and OPEB plan earnings. This amount is the result of a difference between what the plan expected to earn from plan investments and what is actually earned. This amount will be amortized over the next four years and included in pension and OPEB expense. Changes in assumptions relating to the net pension and OPEB liabilities are deferred and amortized over the expected remaining services lives of the employees and retirees in the plans. The School District also reported deferred outflows of resources for pension and OPEB contributions made after the measurement date. This amount will reduce the net pension and OPEB liabilities in the following year.

Compensated Absences – Sick days are earned by employees at varying rates, which may accumulate from year to year, and are as follows:

Teachers and Bus Drivers, 10 days per year; Administrators, Secretaries, and Custodians, 12 days per year.

There are some variations from group to group; normally employees who work only when school is in session receive 10 days per year and employees who work the entire year receive 12 days per year.

Pension – For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Michigan Public School Employees Retirement System (MPSERS) and additions to/deductions from MPSERS fiduciary net position have been determined on the same basis as they are reported by MPSERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**Clio Area Schools**  
**Notes to the Financial Statements**  
**June 30, 2019**

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Postemployment Benefits Other Than Pensions – For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Michigan Public School Employees Retirement System (MPSERS) and additions to/deductions from MPSERS fiduciary net position have been determined on the same basis as they are reported by MPSERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Deferred Inflows of Resources – A deferred inflow of resources is an acquisition of net position by the government that is applicable to a future reporting period. For governmental funds this includes unavailable revenue in connection with receivables for revenues that are not considered available to liquidate liabilities of the current period. For district-wide financial statements, the School District reports deferred inflows of resources as a result of pension and OPEB plan earnings. This amount is the result of a difference between what the plan expected to earn from the plan investments and what the plan actually earned. This amount will be amortized over the next four years and included in pension and OPEB expense. Changes in assumptions relating to the net pension and OPEB liabilities are deferred and amortized over the expected remaining services lives of the employees and retirees in the plans. Deferred inflows of resources also includes revenue received relating to the amounts included in the deferred outflows for payments related to MPSERS Unfunded Actuarial Accrued Liabilities (UAAL) Stabilization defined benefit pension statutorily required contributions.

Fund Equity – In the fund financial statements, governmental funds report fund balance in the following categories:

Non-spendable – amounts that are not available in a spendable form.

Restricted – amounts that are legally imposed or otherwise required by external parties to be used for a specific purpose.

Committed – amounts that have been formally set aside by the Board of Education for specific purposes. A fund balance commitment may be established, modified, or rescinded by a resolution of the Board of Education.

Assigned – amounts intended to be used for specific purposes, as determined by the Board of Education. The Board of Education has the authority to assign funds. Residual amounts in governmental funds other than the General Fund are automatically assigned by their nature.

Unassigned – all other resources; the remaining fund balances after non-spendable, restrictions, commitments and assignments.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the School District's policy is to consider restricted funds spent first.

When an expenditure is incurred for purposes for which committed, assigned, or unassigned amounts could be used, the School District's policy is to consider the funds to be spent in the following order: (1) committed, (2) assigned, (3) unassigned.

**Clio Area Schools**  
**Notes to the Financial Statements**  
**June 30, 2019**

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### **Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities, as well as deferred inflows and deferred outflows at the date of the financial statements and the report amounts of revenue and expenditures during the reporting period. Actual results could differ from those estimates.

### **Eliminations and Reclassifications**

In the process of aggregating data for the statement of net position and the statement of activities, some amounts reported as interfund activity and balances in the funds were eliminated or reclassified. Interfund receivables and payables were eliminated to minimize the "grossing up" effect on assets and liabilities within the governmental activities column.

### **Adoption of New Accounting Standards**

Statement No. 83, *Certain Asset Retirement Obligations* establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. The requirements of this Statement are effective for the fiscal year ending June 30, 2019.

Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements* improves the information that is disclosed in notes to the District's financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities districts should include when disclosing information related to debt. It requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences,

significant termination events with finance-related consequences, and significant subjective acceleration clauses. It will also require that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt. The requirements of this Statement are effective for the fiscal year ending June 30, 2019.

### **Upcoming Accounting and Reporting Changes**

Statement No. 84, *Fiduciary Activities* improves the guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The focus of the criteria includes the following: (1) is the government controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. The four fiduciary funds that should be reported, if applicable are: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally will report fiduciary activities that are not held in a trust or similar arrangement that meets specific criteria. The requirements of this Statement are effective for the fiscal year ending June 30, 2020.

Statement No. 87, *Leases* increases the usefulness of the District's financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. A lessee will be required to recognize a lease liability and an intangible right-to-use a lease asset, and a lessor will be required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about the District's leasing activities. The requirements of this Statement are effective for the fiscal year ending June 30, 2020.

**Clio Area Schools**  
**Notes to the Financial Statements**  
**June 30, 2019**

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Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period* enhances the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and to simplify accounting for interest cost incurred before the end of a construction period. It requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reporting in a business-type activity or enterprise fund. Interest cost incurred before the end of a construction period should be recognized as an expenditure for financial statements prepared using the current financial resources measurement. The requirements of this Statement are effective for the fiscal year ending June 30, 2021.

Statement No. 90, *Majority Equity Interests* improves the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and improves the relevance of financial statement information for certain components. This statement is effective for the year ending June 30, 2020.

Statement No. 91, *Conduit Debt Obligations* provides a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. This statement is effective for the year ending June 30, 2022.

The School District is evaluating the impact the above pronouncements will have on its financial reporting.

**Note 2 - Stewardship, Compliance, and Accountability**

**Budgetary Information**

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America and state law for the General and Special Revenue Funds. All annual appropriations lapse at fiscal year end, thereby canceling all encumbrances. These appropriations are reestablished at the beginning of the year.

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body is the function level. State law requires the School District to have its budget in place by July 1. A district is not considered in violation of the law if reasonable procedures are in use by the School District to detect violations.

The Superintendent is authorized to transfer budgeted amounts within functions in any fund; however, any revisions that alter the total expenditures of any fund must be approved by the Board of Education.

Budgeted amounts are as originally adopted or as amended by the Board of Education throughout the year.

**Clio Area Schools**  
**Notes to the Financial Statements**  
**June 30, 2019**

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**Excess of Expenditures over Appropriations**

During the year, the School District incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated, as follows:

Function	Final Budget	Amount of Expenditures	Budget Variances
General Fund			
Added needs	\$ 3,768,200	\$ 3,769,296	\$ 1,096
Business	546,800	600,805	54,005
Pupil transportation	1,318,000	1,366,581	48,581
Debt - principal	91,700	92,654	954

**Compliance – Sinking Funds**

The Sinking Fund records capital project activities funded with the Sinking Fund millage. For these activities, the School District has complied, in all material respects, with the applicable provisions of § 1212(1) of the Revised School Code and the State of Michigan Department of Treasury Letter No. 2004-4.

**Note 3 - Deposits and Investments**

The School District's deposits were reported in the basic financial statements in the following categories:

	Governmental Activities	Fiduciary Funds	Total Primary Government
Cash and deposits	\$ 5,937,143	\$ 236,175	\$ 6,173,318

*Interest rate risk* – The School District does not have a formal investment policy to manage its exposure to fair value losses arising from changes in interest rates.

*Credit risk* – State statutes and the School District's investment policy authorize the School District to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations that have an office in Michigan; the School District is allowed to invest in U.S. Treasury or Agency obligations, U.S. government repurchase agreements, bankers' acceptances, commercial paper rated prime at the time of purchase that matures not more than 270 days after the date of purchase, mutual funds, and investment pools that are composed of authorized investment vehicles.

*Concentration of credit risk* – The School District has no policy that would limit the amount that may be invested with any one issuer.

*Custodial credit risk – deposits* – In the case of deposits, this is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. The School District does not have a deposit policy for custodial credit risk. As of year end, \$ 6,271,855 of the School District's bank balance of \$ 6,521,855 was exposed to custodial credit risk because it was uninsured and uncollateralized.

**Clio Area Schools**  
**Notes to the Financial Statements**  
**June 30, 2019**

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**Note 4 - Capital Assets**

A summary of the changes in governmental capital assets is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Governmental activities</b>				
Capital assets not being depreciated				
Land	\$ 90,000	\$ -	\$ -	\$ 90,000
Construction-in-progress	-	537,628	-	537,628
Total capital assets not being depreciated	90,000	537,628	-	627,628
Capital assets being depreciated				
Buildings and additions	24,219,365	-	-	24,219,365
Equipment and furniture	2,451,611	111,144	-	2,562,755
Buses and other vehicles	2,257,783	114,859	54,500	2,318,142
Total capital assets being depreciated	28,928,759	226,003	54,500	29,100,262
Less accumulated depreciation for				
Buildings and additions	14,410,608	874,507	-	15,285,115
Equipment and furniture	1,791,563	95,128	-	1,886,691
Buses and other vehicles	1,703,829	95,798	54,500	1,745,127
Total accumulated depreciation	17,906,000	1,065,433	54,500	18,916,933
Net capital assets being depreciated	11,022,759	(839,430)	-	10,183,329
Net capital assets	\$ 11,112,759	\$ (301,802)	\$ -	\$ 10,810,957

Depreciation for the fiscal year ended June 30, 2019 amounted to \$ 1,065,433. The School District allocated depreciation to the various governmental activities as follows:

Instruction	\$ 627,335
Support services	375,634
Food services	44,395
Community services	18,069
<b>Total governmental activities</b>	<b>\$ 1,065,433</b>

**Note 5 - Interfund Receivables, Payables, and Transfers**

Individual interfund receivable and payable balances at year end were:

	Payable Fund	Receivable Fund	Amount
Nonmajor Funds	General Fund		\$ 44,748
General Fund	Nonmajor Funds		4,172
			<b>\$ 48,920</b>

The outstanding balances between funds result mainly from the time lag between the dates that transactions are recorded in the accounting system and payments between funds are made. Management does not anticipate individual interfund balances to remain outstanding for periods in excess of one year.

Transfers of \$ 20,800 were made from the Food Service Fund to the General Fund for indirect cost recovery. Additionally, transfers of \$ 75,498 were made from the Transportation Fund to the General Fund for indirect cost recovery, as these funds were not restricted.

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**Note 6 - Unearned Revenue**

Governmental funds report unearned revenue in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of unearned revenue are as follows:

	<u>Unearned</u>
Prepaid student lunch balances	\$ 13,667
Grant and categorical aid payments received prior to meeting all eligibility requirements	<u>16,673</u>
Total	<u>\$ 30,340</u>

**Note 7 - Long-Term Debt**

The School District issues bonds, notes, and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the School District. Other long-term obligations include compensated absences and certain risk liabilities.

Long-term obligation activity is summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amount Due Within One Year
<b>Notes from direct borrowings and direct placements</b>					
Notes payable	\$ 287,558	\$ -	\$ 92,654	\$ 194,904	\$ 93,793
<b>Other liabilities</b>					
Compensated absences	132,912	26,582	30,303	129,191	28,000
<b>Total</b>	<b>\$ 420,470</b>	<b>\$ 26,582</b>	<b>\$ 122,957</b>	<b>\$ 324,095</b>	<b>\$ 121,793</b>

For governmental activities, compensated absences and notes payable are primarily liquidated by the General Fund.

**Notes Payable**

The School District financed the acquisition of school buses with notes payable. Future principal and interest requirements for direct borrowings and direct placements are as follows:

	Notes from direct borrowings and direct placements		
	Principal	Interest	Total
<b>Year Ending June 30,</b>			
2020	\$ 93,793	\$ 4,685	\$ 98,478
2021	49,959	2,417	52,376
2022	51,152	1,222	52,374
	<b>\$ 194,904</b>	<b>\$ 8,324</b>	<b>\$ 203,228</b>

The School District's outstanding notes from direct borrowings and direct placements related to governmental activities of \$194,904 are secured with collateral of equipment of district.

**Compensated Absences**

Accrued compensated absences at year end, consist of accrued personal time benefits and accrued sick time benefits. The entire vested amount is considered long-term as the amount expended each year is expected to be offset by sick time earned for the year.

**Note 8 - State Aid Anticipation Note**

The School District issues state aid anticipation notes in advance of state aid collections, depositing the proceeds in the General Fund. These notes are necessary because the School District receives state aid from October through the following August for its fiscal year ending June 30<sup>th</sup>.

The School District is required to pledge 100% of their state school aid, October through August, or until the note is repaid, whichever is longer. The State has discretion to accelerate repayment terms if they have cause for concern. If the note is in default status, there is a penalty interest rate that may apply.

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Short-term debt activity for the year was as follows:

	Beginning Balance	Proceeds	Repayments	Ending Balance
State aid anticipation note	\$ 2,600,000	\$ 3,000,000	\$ 2,600,000	\$ 3,000,000

#### **Note 9 - Risk Management**

The School District is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation) and certain medical benefits provided to employees. The School District has purchased commercial insurance for general liability, property and casualty and health and vision claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in the past three fiscal years.

The School District is subject to the Michigan Employment Security Act and has elected to pay unemployment claims on a direct self-insured basis. Under this method, the School District must reimburse the Employment Commission for all benefits charged against the School District. There were no unemployment expenditures for the year. No provision has been made for possible future claims.

#### **Note 10 - Pension Plan**

##### **Plan Description**

The Michigan Public School Employees' Retirement System (System or MPSERS) is a cost-sharing, multiple employer, state-wide, defined benefit public employee retirement plan governed by the State of Michigan (State) originally created under Public Act 136 of 1945, recodified and currently operating under the provisions of Public Act 300 of 1980, as amended. Section 25 of this act establishes the board's authority to promulgate or amend the provisions of the System. The board consists of twelve members— eleven appointed by the Governor and the State Superintendent of Instruction, who serves as an ex-officio member.

The System's pension plan was established by the State to provide retirement, survivor and disability benefits to public school employees. In addition, the System's health plan provides all retirees with the option of receiving health, prescription drug, dental and vision coverage under the Michigan Public School Employees' Retirement Act (1980 PA 300 as amended).

The System is administered by the Office of Retirement Services (ORS) within the Michigan Department of Technology, Management & Budget. The Department Director appoints the Office Director, with whom the general oversight of the System resides. The State Treasurer serves as the investment officer and custodian for the System.

The System's financial statements are available on the ORS website at [www.michigan.gov/orsschools](http://www.michigan.gov/orsschools).

##### **Benefits Provided**

Benefit provisions of the defined benefit pension plan are established by State statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions for the defined benefit (DB) pension plan. Depending on the plan option selected, member retirement benefits are determined by final average compensation, years of service, and a pension factor ranging from 1.25 percent to 1.50 percent. DB members are eligible to receive a monthly benefit when they meet certain age and service requirements. The System also provides disability and survivor benefits to DB plan members.

A DB plan member who leaves Michigan public school employment may request a refund of his or her member contributions to the retirement system account if applicable. A refund cancels a former member's rights to future benefits. However, returning members who previously received a refund of their contributions may reinstate their service through repayment of the refund upon satisfaction of certain requirements.

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**Contributions**

Employers are required by Public Act 300 of 1980, as amended, to contribute amounts necessary to finance the coverage of active and retired members. Contribution provisions are specified by State statute and may be amended only by action of the State Legislature.

Employer contributions to the System are determined on an actuarial basis using the entry age normal actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the service of the individual between entry age and assumed exit age. The portion of this cost allocated to the current valuation year is called the normal cost. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis. The unfunded (overfunded) actuarial accrued liability as of the September 30, 2017 valuation will be amortized over a 20-year period for the 2017 fiscal year.

The schedule below summarizes pension contribution rates in effect for fiscal year ended September 30, 2018.

**Pension Contribution Rates**

<u>Benefit Structure</u>	<u>Member</u>	<u>Employer</u>
Basic	0.0 - 4.0%	17.89%
Member Investment Plan	3.0 - 7.0%	17.89%
Pension Plus	3.0 - 6.4%	16.61%
Pension Plus 2	6.2%	19.74%
Defined Contribution	0.0%	13.54%

Required contributions to the pension plan from the School District were \$4,442,093 for the year ending September 30, 2018.

**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

At June 30, 2019, the School District reported a liability of \$49,040,130 for its proportionate share of the MPSERS net pension liability. The net pension liability was measured as of September 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 2017. The School District's proportion of the net pension liability was determined by dividing each employer's statutorily required pension contributions to the system during the measurement period by the percent of pension contributions required from all applicable employers during the measurement period. At September 30, 2018, the School District's proportion was .1631 percent, which was a decrease of .0041 percent from its proportion measured as of September 30, 2017. At September 30, 2018, the total pension expense for the School District was \$ 5,376,960. For the year ending June 30, 2019 the School District recognized pension expense of \$3,891,921.

At June 30, 2019, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

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	Deferred Outflows of Resources	Deferred Inflows of Resources	Total	Deferred (Inflow) and Deferred Outflow of Resources by Year <u>(To Be Recognized in Future Pension Expenses)</u>
Difference between expected and actual experience	\$ 227,555	\$ (356,366)	\$ (128,811)	2019 \$ 2,503,453
Changes of assumptions	11,357,654	-	11,357,654	2020 1,926,543
Net difference between projected and actual earnings on pension plan investments	-	(3,353,098)	(3,353,098)	2021 1,300,645
Changes in proportion and differences between the School District contributions and proportionate share of contributions	13	(1,612,103)	(1,612,090)	2022 533,014
Total to be recognized in future	11,585,222	(5,321,567)	6,263,655	
School District contributions subsequent to the measurement date	3,562,795	(1,763,177)	1,799,618	
<b>Total</b>	<b>\$ 15,148,017</b>	<b>\$ (7,084,744)</b>	<b>\$ 8,063,273</b>	<b>\$ 6,263,655</b>

Contributions subsequent to the measurement date reported as deferred outflows of resources related to pensions resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

### Actuarial Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

Additional information as of the latest actuarial valuation follows:

#### *Summary of Actuarial Assumptions:*

- Valuation Date: September 30, 2017
- Actuarial Cost Method: Entry Age, Normal
- Wage inflation rate: 2.75%
- Investment Rate of Return:
  - MIP and Basic Plans: 7.05%
  - Pension Plus Plan: 7.00%
  - Pension Plus 2 Plan: 6.00%
- Projected Salary Increases: 2.75 – 11.55%, including wage inflation at 2.75%
- Cost-of-Living Pension Adjustments: 3% Annual Non-Compounded for MIP Members

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- Mortality:
  - Retirees: RP-2014 Male and Female Healthy Annuitant Mortality Tables, scaled by 82% for males and 78% for females and adjusted for mortality improvements using projection scale MP-2017 from 2006.
  - Active Members: Male and Female Employee Annuitant Mortality Tables, scaled 100% and adjusted for mortality improvements using projection scale MP-2017 from 2006.

Assumption changes as a result of an experience study for the period 2012 through 2017 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2017 valuation. The total pension liability as of September 30, 2018, is based on the results of an actuarial valuation date of September 30, 2017, and rolled forward using generally accepted actuarial procedures, including the experience study.

Recognition period for liabilities is the average of the expected remaining service lives of all employees in years: 4.5304.

Recognition period for assets in years is 5.0000.

Full actuarial assumptions are available in the 2018 MPSERS Comprehensive Annual Financial Report found on the ORS website at [www.michigan.gov/orsschools](http://www.michigan.gov/orsschools).

#### **Long-Term Expected Return on Plan Assets**

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target

asset allocation as of September 30, 2018, are summarized in the following table:

Asset Class	Target Allocation	Long Term Expected Real Rate of Return*
Domestic Equity Pools	28.0 %	5.7 %
Alternative Investment Pools	18.0	9.2
International Equity	16.0	7.2
Fixed Income Pools	10.5	5.0
Real Estate and Infrastructure Pools	10.0	3.9
Absolute Return Pools	15.5	5.2
Short Term Investment Pools	2.0	0.0
	<hr/> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/>	<hr/> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/>
	100.0%	

*\*Long-term rates of return are net of administrative expenses and 2.3% inflation.*

#### **Rate of Return**

For the fiscal year ended September 30, 2018, the annual money-weighted rate of return on pension plan investment, net of pension plan investment expense, was 11.11%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

#### **Discount Rate**

A discount rate of 7.05% was used to measure the total pension liability (7.0% for the Pension Plus plan, 6.0% for the Pension plus 2 plan provided through non-university employers only). This discount rate was based on the long-term expected rate of return on pension plan investments of 7.05% (7.0% for the Pension Plus plan, 6.0 for the Pension plus 2 plan). The projection of cash flows used to determine this discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these

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assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**Sensitivity of the School District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate**

The following presents the School District's proportionate share of the net pension liability calculated using the discount rate of 7.05% (7.0% for the Hybrid Plan), as well as what the School District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage higher:

Current Single Discount Rate		
1% Decrease *	Assumption *	1% Increase *
6.05% / 6.0% / 5.0%	7.05% / 7.0% / 6.0%	8.05% / 8.0% / 7.0%
\$ 64,385,902	\$ 49,040,130	\$ 36,290,287

*\*Discount rates listed in the following order: Basic and Member Investment Plan (MIP), Pension Plus, and Pension Plus 2.*

**Michigan Public School Employees' Retirement System (MPSERS) Fiduciary Net Position**

Detailed information about the pension plan's fiduciary net position is available in the separately issued MPSERS CAFR, available on the ORS website at [www.michigan.gov/orsschools](http://www.michigan.gov/orsschools).

**Payables to the Michigan Public School Employees' Retirement System (MPSERS)**

There were no significant payables to the pension plan that are not ordinary accruals to the School District.

**Note 11 - Post-employment Benefits Other Than Pensions (OPEB)**

**Plan Description**

The Michigan Public School Employees' Retirement System (System or MPSERS) is a cost-sharing, multiple employer, state-wide, defined benefit public employee retirement plan governed by the State of Michigan (State) originally created under Public Act 136 of 1945, recodified and currently operating under the provisions of Public Act 300 of 1980, as amended. Section 25 of this act establishes the board's authority to promulgate or amend the provisions of the System. The board consists of twelve members— eleven appointed by the Governor and the State Superintendent of Instruction, who serves as an ex-officio member.

The System's health plan provides all eligible retirees with the option of receiving health, prescription drug, dental and vision coverage under the Michigan Public School Employees' Retirement Act (1980 PA 300 as amended).

The System is administered by the Office of Retirement Services (ORS) within the Michigan Department of Technology, Management & Budget. The Department Director appoints the Office Director, with whom the general oversight of the System resides. The State Treasurer serves as the investment officer and custodian for the System.

The System's financial statements are available on the ORS website at [www.michigan.gov/orsschools](http://www.michigan.gov/orsschools).

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**Benefits Provided**

Benefit provisions of the postemployment healthcare plan are established by State statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions. Retirees have the option of health coverage, which, through 2012, was funded on a cash disbursement basis. Beginning fiscal year 2013, it is funded on a prefunded basis. The System has contracted to provide the comprehensive group medical, prescription drug, dental and vision coverage for retirees and beneficiaries. A subsidized portion of the premium is paid by the System with the balance deducted from the monthly pension of each retiree healthcare recipient. For members who first worked before July 1, 2008, (Basic, MIP-Fixed, and MIP Graded plan members) the subsidy is the maximum allowed by statute. To limit future liabilities of Other Postemployment Benefits, members who first worked on or after July 1, 2008 (MIP-Plus plan members) have a graded premium subsidy based on career length where they accrue credit towards their insurance premiums in retirement, not to exceed the maximum allowable by statute. Public Act 300 of 2012 sets the maximum subsidy at 80% beginning January 1, 2013; 90% for those Medicare eligible and enrolled in the insurances as of that date. Dependents are eligible for healthcare coverage if they meet the dependency requirements set forth in Public Act 300 of 1980, as amended.

Public Act 300 of 2012 granted all active members of the Michigan Public School Employees Retirement System, who earned service credit in the 12 months ending September 3, 2012 or were on an approved professional services or military leave of absence on September 3, 2012, a voluntary election regarding their retirement healthcare. Any changes to a member's healthcare benefit are effective as of the member's transition date, which is defined as the first day of the pay period that begins on or after February 1, 2013.

Under Public Act 300 of 2012, members were given the choice between continuing the 3% contribution to retiree healthcare and keeping the premium subsidy benefit described above, or choosing not to pay the 3% contribution and instead opting out of the subsidy

benefit and becoming a participant in the Personal Healthcare Fund (PHF), a portable, tax-deferred fund that can be used to pay healthcare expenses in retirement. Participants in the PHF are automatically enrolled in a 2% employee contribution into their 457 account as of their transition date, earning them a 2% employer match into a 401(k) account. Members who selected this option stop paying the 3% contribution to retiree healthcare as of the day before their transition date, and their prior contributions were deposited into their 401(k) account.

**Contributions**

Employers are required by Public Act 300 of 1980, as amended, to contribute amounts necessary to finance the coverage of active and retired members. Contribution provisions are specified by State statute and may be amended only by action of the State Legislature.

Employer OPEB contributions to the System are determined on an actuarial basis using the entry age normal actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the service of the individual between entry age and assumed exit age. The portion of this cost allocated to the current valuation year is called the normal cost. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis. The unfunded (overfunded) actuarial accrued liability as of the September 30, 2017 valuation will be amortized over a 20-year period for the 2017 fiscal year.

The schedule below summarizes OPEB contribution rates in effect for fiscal year 2018.

OPEB Contribution Rates		
Benefit Structure	Member	Employer
Premium Subsidy	3.0%	6.44%
Personal Healthcare Fund (PHF)	0.0%	6.13%

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Required contributions to the OPEB plan from the School District were \$ 1,038,604 for the year ended September 30, 2018.

**OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB**

At June 30, 2019, the School District reported a liability of \$ 12,718,938 for its proportionate share of the MPERS net OPEB liability. The net OPEB liability was measured as of September 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation rolled forward from September 2017. The School District's proportion of the net OPEB liability was determined by dividing each employer's statutorily required OPEB contributions to the system during the measurement period by the percent of OPEB contributions required from all applicable employers during the measurement period. At September 30, 2018, the School District's proportion was .1670 percent, which was a decrease of .0071 from its proportion measured as of September 30, 2017. At September 30, 2018, the total OPEB expense for the School District was \$ 497,593. For the year ending June 30, 2019, the School District recognized total OPEB expense of \$1,054,244.

At June 30, 2019, the School District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources	Total
Difference between expected and actual experience	\$ -	\$ (2,367,321)	\$ (2,367,321)
Changes of assumptions	1,346,942	-	1,346,942
Net difference between projected and actual earnings on OPEB plan investments	-	(488,819)	(488,819)
Changes in proportion and differences between the School District contributions and proportionate share of contributions	300	(567,660)	(567,360)
Total to be recognized in future	1,347,242	(3,423,800)	(2,076,558)
School District contributions subsequent to the measurement date	910,517	-	910,517
<b>Total</b>	<b>\$ 2,257,759</b>	<b>\$ (3,423,800)</b>	<b>\$ (1,166,041)</b>

Contributions subsequent to the measurement date reported as deferred outflows of resources related to OPEB resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2020.

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Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Deferred (Inflow) and Deferred Outflow of Resources by Year  
 (To Be Recognized in Future OPEB Expenses)

2019	\$	(495,981)
2020	(495,981)	
2021	(495,981)	
2022	(396,262)	
2023	<u>(192,353)</u>	
	<u>\$</u>	<u>(2,076,558)</u>

### **Actuarial Assumptions**

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

Additional information as of the latest actuarial valuation follows:

#### *Summary of Actuarial Assumptions:*

- Valuation Date: September 30, 2017
- Actuarial Cost Method: Entry Age, Normal
- Wage inflation rate: 2.75%
- Investment Rate of Return: 7.15%
- Projected Salary Increases: 2.75 – 11.55%, including wage inflation at 2.75%

- Healthcare Cost Trend Rate: 7.5% Year 1 graded to 3.0% Year 12
- Mortality:
  - Retirees: RP-2014 Male and Female Healthy Annuitant Mortality Tables, scaled by 82% for males and 78% for females and adjusted for mortality improvements using projection scale MP-2017 from 2006.
  - Active Members: Male and Female Employee Annuitant Mortality Tables, scaled 100% and adjusted for mortality improvements using projection scale MP-2017 from 2006.

#### *Other Assumptions:*

- Opt Out Assumptions: 21% of eligible participants hired before July 1, 2008 and 30% of those hired after June 30, 2008 are assumed to opt out of the retiree health plan
- Survivor Coverage: 80% of male retirees and 67% of female retirees are assumed to have coverages continuing after the retiree's death
- Coverage Election at Retirement: 75% of male and 60% of female future retirees are assumed to elect coverage for 1 or more dependents.

Assumption changes as a result of an experience study for the period 2012 through 2017 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2017 valuation. The total OPEB liability as of September 30, 2018, is based on the results of an actuarial valuation date of September 30, 2017, and rolled forward using generally accepted actuarial procedures, including the experience study.

Recognition period for liabilities is the average of the expected remaining service lives of all employees in years: 5.6018.

Recognition period for assets in years is 5.0000.

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Full actuarial assumptions are available in the 2018 MPSERS Comprehensive Annual Financial Report found on the ORS website at [www.michigan.gov/orsschools](http://www.michigan.gov/orsschools).

#### **Long-Term Expected Return on Plan Assets**

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the OPEB plan's target asset allocation as of September 30, 2018, are summarized in the following table:

Asset Class	Target Allocation	Long Term Expected Real Rate of Return*
Domestic Equity Pools	28.0 %	5.7 %
Alternative Investment Pools	18.0	9.2
International Equity	16.0	7.2
Fixed Income Pools	10.5	0.5
Real Estate and Infrastructure Pools	10.0	3.9
Absolute Return Pools	15.5	5.0
Short Term Investment Pools	2.0	0.0
	<u>100.0%</u>	

\*Long-term rates of return are net of administrative expenses and 2.3% inflation.

#### **Rate of Return**

For the fiscal year ended September 30, 2018, the annual money-weighted rate of return on OPEB plan investment, net of OPEB plan investment expense, was 10.75%. The money-weighted rate of return

expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

#### **Discount Rate**

A discount rate of 7.15% was used to measure the total OPEB liability. This discount rate was based on the long-term expected rate of return on OPEB plan investments of 7.15%. The projection of cash flows used to determine this discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

#### **Sensitivity of the School District's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate**

The following presents the School District's proportionate share of the net OPEB liability calculated using the discount rate of 7.15%, as well as what the School District's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage higher:

	Current Discount Rate	1% Decrease 6.15%	1% Increase 8.15%
\$	<u>15,268,826</u>	<u>\$ 12,719,938</u>	<u>\$ 10,574,170</u>

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**Sensitivity of the School District's Proportionate Share of the Net OPEB Liability to Healthcare Cost Trend Rate**

The following presents the School District's proportionate share of the net OPEB liability calculated using assumed trend rates, as well as what the School District's proportionate share of net OPEB liability would be if it were calculated using a trend rate that is 1-percentage-point lower or 1-percentage-point higher:

Current Healthcare		
1% Decrease	Cost Trend Rate	1% Increase
\$ 10,461,186	\$ 12,718,938	\$ 15,309,040

**OPEB Plan Fiduciary Net Position**

Detailed information about the OPEB plan's fiduciary net position is available in the separately issued 2018 MPSERS CAFR, available on the ORS website at [www.michigan.gov/orsschools](http://www.michigan.gov/orsschools).

**Payables to the OPEB Plan**

There were no significant payables to the OPEB plan that are not ordinary accruals to the School District.

**Note 12 - Contingent Liabilities**

Amounts received or receivable from grantor agencies are subjected to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of costs which may be disallowed by the grantor cannot be determined at this time although the School District expects such amounts, if any, to be immaterial. A separate report on federal compliance has been issued for the year June 30, 2019.

**Note 13 - Tax Abatements**

School Districts may receive reduced property tax revenues as a result of Industrial Facilities Tax exemptions and Brownfield Redevelopment Agreements granted by the various municipalities within the School District boundaries. Industrial facility exemptions are intended to promote construction of new industrial facilities, or to rehabilitate historical facilities; Brownfield redevelopment agreements are intended to reimburse taxpayers that remediate environmental contamination on their properties.

For the fiscal year ended June 30, 2019, the School District's property tax revenues were not reduced by any amounts under these programs.

There are no significant abatements made by the School District.

## **REQUIRED SUPPLEMENTARY INFORMATION**

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**Clio Area Schools**  
**Required Supplementary Information**  
**Budgetary Comparison Schedule - General Fund**  
**For the Year Ended June 30, 2019**

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	<b>Budgeted Amounts</b>			<b>Over (Under) Budget</b>
	<b>Original</b>	<b>Final</b>	<b>Actual</b>	
<b>Revenues</b>				
Local sources	\$ 2,917,100	\$ 3,271,200	\$ 3,253,535	\$ (17,665)
State sources	24,787,300	24,349,100	24,369,372	20,272
Federal sources	1,259,787	1,288,500	1,267,136	(21,364)
Interdistrict sources	317,219	261,104	384,250	123,146
Total revenues	<u>29,281,406</u>	<u>29,169,904</u>	<u>29,274,293</u>	<u>104,389</u>
<b>Expenditures</b>				
Instruction				
Basic programs	14,436,829	14,121,200	14,104,743	(16,457)
Added needs	3,794,936	3,768,200	3,769,296	1,096
Supporting services				
Pupil	1,420,515	1,446,100	1,444,276	(1,824)
Instructional staff	929,219	838,900	830,653	(8,247)
General administration	461,600	497,700	480,742	(16,958)
School administration	1,988,100	2,117,100	2,092,662	(24,438)
Business	537,700	546,800	600,805	54,005
Operations and maintenance	1,995,330	2,500,000	2,412,164	(87,836)
Pupil transportation services	1,742,420	1,318,000	1,366,581	48,581
Central	574,568	510,000	468,850	(41,150)
Other supporting services	72,700	-	-	-
Athletic activities	542,700	580,100	578,732	(1,368)
Community services	571,218	527,000	514,838	(12,162)
Debt service				
Principal	91,700	91,700	92,654	954
Interest and fiscal charges	9,100	8,000	6,991	(1,009)
Total expenditures	<u>29,168,635</u>	<u>28,870,800</u>	<u>28,763,987</u>	<u>(106,813)</u>
Excess of revenues over expenditures	<u>112,771</u>	<u>299,104</u>	<u>510,306</u>	<u>211,202</u>

**Clio Area Schools**  
**Required Supplementary Information**  
**Budgetary Comparison Schedule - General Fund**  
**For the Year Ended June 30, 2019**

---

	<u>Budgeted Amounts</u>			<u>Over (Under) Budget</u>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
<b>Other Financing Sources (Uses)</b>				
Insurance recoveries	-	4,496	4,542	46
Proceeds from sale of capital assets	2,200	400	400	-
Transfers in	80,000	145,000	96,298	(48,702)
Total other financing sources (uses)	<u>82,200</u>	<u>149,896</u>	<u>101,240</u>	<u>(48,656)</u>
Net change in fund balance	194,971	449,000	611,546	162,546
Fund balance - beginning	<u>3,477,030</u>	<u>3,477,030</u>	<u>3,477,030</u>	<u>-</u>
Fund balance - ending	<u>\$ 3,672,001</u>	<u>\$ 3,926,030</u>	<u>\$ 4,088,576</u>	<u>\$ 162,546</u>

**Clio Area Schools**  
**Required Supplementary Information**  
**Schedule of the School District's Proportionate Share of the Net Pension Liability**  
**Michigan Public School Employees Retirement Plan**  
**Last 10 Fiscal Years (Measurement Date September 30th, of Each June Fiscal Year)**

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	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
A. School district's proportion of the net pension liability (%)	0.1631%	0.1672%	0.1707%	0.1710%	0.1776%					
B. School district's proportionate share of the net pension liability	\$49,040,130	\$43,339,165	\$42,582,954	\$41,769,788	\$39,118,050					
C. School district's covered-employee payroll	\$13,586,957	\$13,822,854	\$14,408,819	\$14,273,917	\$15,270,293					
D. School district's proportionate share of the net pension liability as a percentage of its covered-employee payroll	360.94%	313.53%	295.53%	292.63%	256.17%					
E. Plan fiduciary net position as a percentage of total pension liability	62.36%	64.21%	63.27%	63.17%	66.20%					

**Notes:**

Changes of benefit terms: There were no changes of benefit terms in plan fiscal year 2018.

Changes of benefit assumptions: There were no changes of benefit assumptions in plan fiscal year 2018.

**Clio Area Schools**  
**Required Supplementary Information**  
**Schedule of the School District's Pension Contributions**  
**Michigan Public School Employees Retirement Plan**  
**Last 10 Fiscal Years**

---

	For the Years Ended June 30,									
	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
A. Statutorily required contributions for the measurement period	\$ 3,891,921	\$ 4,470,488	\$ 2,550,323	\$ 2,686,171	\$ 3,217,031					
B. Contributions in relation to statutorily required contributions	<u>\$ 3,891,921</u>	<u>\$ 4,470,488</u>	<u>\$ 2,550,323</u>	<u>\$ 2,686,171</u>	<u>\$ 3,217,031</u>					
D. School district's covered-employee payroll	\$13,357,473	\$13,621,666	\$13,547,197	\$13,884,740	\$14,537,616					
E. Contributions as a percentage of covered-employee payroll	29.14%	32.82%	18.83%	19.35%	22.13%					

**Clio Area Schools**  
**Required Supplementary Information**  
**Schedule of the School District's Proportionate Share of the Net OPEB Liability**  
**Michigan Public School Employees Retirement Plan**  
**Last 10 Fiscal Years (Measurement Date September 30th, of Each June Fiscal Year)**

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	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
A. School district's proportion of the net OPEB liability (%)	0.1600%	0.1671%								
B. School district's proportionate share of the net OPEB liability	\$12,718,938	\$14,796,344								
C. School district's covered-employee payroll	\$13,586,957	\$13,822,854								
D. School district's proportionate share of the net OPEB liability as a percentage of its covered-employee payroll	93.61%	107.04%								
E. Plan fiduciary net position as a percentage of total OPEB liability	42.95%	36.39%								

**Notes:**

Changes of benefit terms: There were no changes of benefit terms in plan fiscal year 2018.

Changes of benefit assumptions: There were no changes of benefit assumptions in plan fiscal year 2018.

**Clio Area Schools**  
**Required Supplementary Information**  
**Schedule of the School District's OPEB Contributions**  
**Michigan Public School Employees Retirement Plan**  
**Last 10 Fiscal Years**

---

	For the Years Ended June 30,									
	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
A. Statutorily required contributions for the measurement period	\$ 1,054,244	\$ 1,006,907								
B. Contributions in relation to statutorily required contributions	<u>\$ 1,054,244</u>	<u>\$ 1,006,907</u>								
D. School district's covered-employee payroll	\$ 13,357,473	\$ 13,621,666								
E. Contributions as a percentage of covered-employee payroll	7.89%	7.39%								

## **OTHER SUPPLEMENTARY INFORMATION**

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**Clio Area Schools**  
**Other Supplementary Information**  
**Nonmajor Governmental Funds**  
**Combining Balance Sheet**  
**June 30, 2019**

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	Special Revenue Fund		Capital Projects Fund		Total Nonmajor Governmental Funds	
			Food Service	Transportation	Sinking Fund	
<b>Assets</b>						
Cash	\$ 638,008	\$ -	\$ 581,001	\$ 1,219,009		
Due from other funds	1,688	-	2,484	4,172		
Due from other governmental units	27,631	23,948	-	51,579		
Inventory	18,635	-	-	18,635		
Total assets	<u>\$ 685,962</u>	<u>\$ 23,948</u>	<u>\$ 583,485</u>	<u>\$ 1,293,395</u>		

**Clio Area Schools**  
**Other Supplementary Information**  
**Nonmajor Governmental Funds**  
**Combining Balance Sheet**  
**June 30, 2019**

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	Special Revenue Fund		Capital Projects Fund		Total Nonmajor Governmental Funds	
	Food Service	Transportation	Sinking Fund			
<b>Liabilities and Fund Balance</b>						
Liabilities						
Accounts payable	\$ 65,153	\$ -	\$ 50,066	\$ 115,219		
Due to other funds	20,800	23,948	-	44,748		
Unearned revenue	<u>13,667</u>	<u>-</u>	<u>-</u>	<u>13,667</u>		
Total liabilities	<u>99,620</u>	<u>23,948</u>	<u>50,066</u>	<u>173,634</u>		
Fund Balance						
Non-spendable						
Inventory	18,635	-	-	18,635		
Restricted for						
Food service	567,707	-	-	567,707		
Capital projects	<u>-</u>	<u>-</u>	<u>533,419</u>	<u>533,419</u>		
Total fund balance	<u>586,342</u>	<u>-</u>	<u>533,419</u>	<u>1,119,761</u>		
Total liabilities and fund balance	<u>\$ 685,962</u>	<u>\$ 23,948</u>	<u>\$ 583,485</u>	<u>\$ 1,293,395</u>		

**Clio Area Schools**  
**Other Supplementary Information**  
**Nonmajor Governmental Funds**  
**Combining Statement of Revenues, Expenditures and Changes in Fund Balance**  
**For the Year Ended June 30, 2019**

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	Special Revenue Fund		Capital Projects Fund		Total Nonmajor Governmental Funds
	Food Service	Transportation	Sinking Fund		
<b>Revenues</b>					
Local sources	\$ 308,172	\$ 502,607	\$ 1,025,498	\$ 1,836,277	
State sources	62,031	-	-	62,031	
Federal sources	938,663	-	-	938,663	
Total revenues	<u>1,308,866</u>	<u>502,607</u>	<u>1,025,498</u>	<u>2,836,971</u>	
<b>Expenditures</b>					
Current					
Education					
Supporting services	-	427,109	-	427,109	
Food services	1,264,899	-	-	1,264,899	
Capital outlay	-	-	535,807	535,807	
Total expenditures	<u>1,264,899</u>	<u>427,109</u>	<u>535,807</u>	<u>2,227,815</u>	
Excess of revenues over expenditures	43,967	75,498	489,691	609,156	
<b>Other Financing Uses</b>					
Transfers out	(20,800)	(75,498)	-	(96,298)	
Net change in fund balance	23,167	-	489,691	512,858	
Fund balance - beginning	563,175	-	43,728	606,903	
Fund balance - ending	<u>\$ 586,342</u>	<u>\$ -</u>	<u>\$ 533,419</u>	<u>\$ 1,119,761</u>	

**Clio Area Schools**

**Single Audit Report**

**June 30, 2019**



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**Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards***

**Independent Auditors' Report**

Management and the Board of Education  
Clio Area Schools  
Clio, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Clio Area Schools, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise Clio Area Schools' basic financial statements, and have issued our report thereon dated August 29, 2019.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Clio Area Schools' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Clio Area Schools' internal control. Accordingly, we do not express an opinion on the effectiveness of Clio Area Schools' internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Clio Area Schools' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Yeo & Yeo, P.C.*

Flint, Michigan  
August 29, 2019



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## **Report on Compliance For Each Major Federal Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance**

### **Independent Auditors' Report**

Management and the Board of Education  
Clio Area Schools  
Clio, Michigan

#### **Report on Compliance for Each Major Federal Program**

We have audited Clio Area Schools' compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Clio Area Schools' major federal programs for the year ended June 30, 2019. Clio Area Schools' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

#### ***Management's Responsibility***

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

#### ***Auditors' Responsibility***

Our responsibility is to express an opinion on compliance for each of Clio Area Schools' major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Clio Area Schools' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Clio Area Schools' compliance.

### ***Opinion on Each Major Federal Program***

In our opinion, Clio Area Schools complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2019.

### **Report on Internal Control over Compliance**

Management of Clio Area Schools is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Clio Area Schools' internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Clio Area Schools' internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

## **Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance**

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Clio Area Schools, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise Clio Area Schools' basic financial statements. We issued our report thereon dated August 29, 2019, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

*Yeo & Yeo, P.C.*

Flint, Michigan  
August 29, 2019

**Clio Area Schools**  
**Schedule of Expenditures of Federal Awards**  
**Year Ended June 30, 2019**

Federal Grantor Pass Through Grantor Program Title Grant Number	Federal CFDA Number	Award Grant Entitlement Program Amount	Inventory/ Accrued (Unearned) Revenue at July 1, 2018	Prior Year Expenditures	Current Year Expenditures	Current Year Cash Payments/ In Kind Received	Inventory/ Accrued (Unearned) Revenue at June 30, 2019
<b>U.S. DEPARTMENT OF AGRICULTURE</b>							
Child Nutrition Cluster							
Passed through Michigan Department of Education							
Non-Cash Assistance							
Entitlement Commodities	10.555	\$ 80,708	\$ -	\$ -	\$ 80,708	\$ 80,708	\$ -
Cash Assistance							
School Breakfast Program	10.553						
181970		241,804	-	212,413	29,391	29,391	-
191970		196,223	-	-	196,223	189,554	6,669
Total School Breakfast Program		438,027	-	212,413	225,614	218,945	
National School Lunch Program	10.555						
181960		646,064	-	564,130	81,934	81,934	-
181980		4,222	-	3,728	494	494	-
191960		527,957	-	-	527,957	513,397	14,560
191980		3,344	-	-	3,344	3,228	116
Total National School Lunch Program		1,181,587	-	567,858	613,729	599,053	14,676
Summer Food Service Program for Children	10.559						
180900		17,155	-	-	17,155	17,155	-
181900		1,457	-	-	1,457	1,457	-
Total Summer Food Service Program for Children		18,612	-	-	18,612	18,612	-
Total Cash Assistance		1,638,226	-	780,271	857,955	836,610	21,345
Total Child Nutrition Cluster		1,718,934	-	780,271	938,663	917,318	21,345
<b>TOTAL U.S. DEPARTMENT OF AGRICULTURE</b>		<b>1,718,934</b>	<b>-</b>	<b>780,271</b>	<b>938,663</b>	<b>917,318</b>	<b>21,345</b>
<b>U.S. DEPARTMENT OF EDUCATION</b>							
Special Education Cluster							
Passed through the Genesee Intermediate School District							
Special Education Grants to States	84.027						
180450-1718		616,199	213,066	616,199	-	213,066	-
190450-1819		591,012	-	-	591,012	374,645	216,367
Total Special Education Grants to States		1,207,211	213,066	616,199	591,012	587,711	216,367

**Clio Area Schools**  
**Schedule of Expenditures of Federal Awards**  
**Year Ended June 30, 2019**

Federal Grantor Pass Through Grantor Program Title Grant Number	Federal CFDA Number	Award Grant Entitlement Program Amount	Inventory/ Accrued (Unearned) Revenue at July 1, 2018		Prior Year Expenditures	Current Year Expenditures	Current Year Cash Payments/ In Kind Received	Inventory/ Accrued (Unearned) Revenue at June 30, 2019
Special Education Preschool Grants 190460-1819	84.173	18,421	-	-	18,421	18,421	-	-
Total Special Education Cluster		1,225,632	213,066	616,199	609,433	606,132	216,367	
Passed through the Michigan Department of Education Title I, Part A - Grants to Local Educational Agencies 181530-1718 191530-1819	84.010	482,485 477,111	65,570 -	482,485 -	- 477,111	65,570 408,063	- 69,048	
Total Title I, Part A - Grants to Local Educational Agencies		959,596	65,570	482,485	477,111	473,633	69,048	
Passed through Genesee Intermediate School District Career and Technical Education - Basic Grants to States Regional Allocation (Perkins) 193520-1912-15	84.048		5,500	-	-	5,500	5,500	-
Passed through the Michigan Department of Education Title III Part A English Language Acquisition State Grants 190570-1819	84.365	836	-	-	836	836	-	
Passed through the Michigan Department of Education Title II, Part A Supporting Effective Instruction State Grants 180520-1718 190520-1819	84.367	155,282 138,614	21,901	153,711	- 122,712	21,901 106,518	- 16,194	
Total Title II, Part A Supporting Effective Instruction State Grants		293,896	21,901	153,711	122,712	128,419	16,194	
Passed through Genesee Intermediate School District Investing in Innovation Fund (I3) 2018 2019	84.411B	65,573 30,165	12,500	54,409	- 17,871	12,500 17,871	- -	
Total Investing in Innovation		95,738	12,500	54,409	17,871	30,371	-	
Passed through the Michigan Department of Education Title IV Part A Student Support and Academic Enrichment Program 190750-1819	84.424	32,798	-	-	31,212	31,212	-	
TOTAL U.S. DEPARTMENT OF EDUCATION		2,613,996	313,037	1,306,804	1,264,675	1,276,103	301,609	

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

**Clio Area Schools**  
**Schedule of Expenditures of Federal Awards**  
**Year Ended June 30, 2019**

Federal Grantor Pass Through Grantor Program Title Grant Number	Federal CFDA Number	Award Grant Entitlement Program Amount	Inventory/ Accrued (Unearned) Revenue at July 1, 2018		Prior Year Expenditures	Current Year Expenditures	Current Year Cash Payments/ In Kind Received	Inventory/ Accrued (Unearned) Revenue at June 30, 2019
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES								
Medicaid Cluster								
Passed through Genesee Intermediate School District								
Medical Assistance Program	93.778							
Medicaid Outreach 18-19		2,461	-	-	2,461	2,461		-
TOTAL DEPARTMENT OF HEALTH AND HUMAN SERVICES			2,461	-	-	2,461	2,461	-
TOTAL FEDERAL AWARDS		\$ 4,335,391	\$ 313,037	\$ 2,087,075	\$ 2,205,799	\$ 2,195,882	\$ 322,954	

**Clio Area Schools**  
**Notes to the Schedule of Expenditures of Federal Awards**  
**June 30, 2019**

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**Note 1 - Basis of Presentation**

The accompanying schedule of expenditures of federal awards (SEFA) includes the federal award activity of Clio Area Schools under programs of the federal government for the year ended June 30, 2019. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Clio Area Schools, it is not intended to and does not present the financial position or changes in financial position of Clio Area Schools.

**Note 2 - Summary of Significant Accounting Policies**

**Expenditures**

Expenditures reported on the SEFA are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance where certain types of expenditures are not allowable or are limited as to reimbursement.

**Indirect Cost Rate**

Clio Area Schools has elected not to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.

**Note 3 - Reconciliation to Financial Statements**

The federal revenues per the financial statements are in agreement with the SEFA.

**Note 4 - Funds Transferred to Subrecipients**

The Schools District did not transfer any federal funds to subrecipients during the fiscal year.

**Clio Area Schools**  
**Notes to the Schedule of Expenditures of Federal Awards**  
**June 30, 2019**

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**Note 5 - Michigan Department of Education Disclosures**

Management has reported the expenditures in the SEFA equal to those amounts reported in the annual or final cost reports that have been submitted for that particular grant year.

The federal amounts reported on the CMS Grant Auditor Report (GAR) Subrecipient Schedule are in agreement with the SEFA except for the following:

CFDA#	Project#	Plus Amount Disbursed in 18-19 per the GAR but			Cash paid per June 30, 2019 GAR
		Cash Received per SEFA	received in 19-20 by the District	Cash paid per June 30, 2019 GAR	
10.553	191970-1819	\$ 189,554	\$ 6,668	\$ 196,222	
10.555	191960-1819	513,397	14,560	527,957	
10.555	191980-1819	3,228	116	3,344	

The amounts reported on the Recipient Entitlement Balance Report (PAL Report) agree with the SEFA for USDA donated food commodities.

**Clio Area Schools**  
**Schedule of Findings and Questioned Costs**  
**For the Year Ended June 30, 2019**

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**Section I - Summary of Auditors' Results**

*Financial Statements*

Type of auditors' report issued on whether the financial statements were prepared in accordance with Generally Accepted Accounting Principles:

Unmodified

Internal control over financial reporting:

- |   |                              |   |
|---|------------------------------|---|
| • Material weakness(es) identified?   | <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> X No            |
| • Significant deficiency(ies) identified that are not considered to be material weaknesses? | <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> X None reported |

Noncompliance material to financial statements noted?

Yes       X No

*Federal Awards*

Internal control over major programs:

- |   |                              |   |
|---|------------------------------|---|
| • Material weakness(es) identified?   | <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> X No            |
| • Significant deficiency(ies) identified that are not considered to be material weakness(es)? | <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> X None reported |

Type of auditors' report issued on compliance for major programs:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with §200.516(a)?

Yes       X No

**Clio Area Schools**  
**Schedule of Findings and Questioned Costs**  
**For the Year Ended June 30, 2019**

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Identification of major programs:

CFDA Numbers

84.027/84.173

Name of Federal Program

Special Education Cluster

Dollar threshold used to distinguish

between type A and type B programs:

\$ 750,000

Auditee qualified as low-risk auditee:

Yes  No

**Section II - Financial Statement Findings**

No matters were noted.

**Section III - Federal Award Findings and Questioned Costs**

No matters were noted.

**Clio Area Schools**  
**Summary Schedule of Prior Audit Findings**  
**June 30, 2019**

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**Section IV - Prior Year Audit Findings**

No matters were noted.



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August 29, 2019

Management and the Board of Education  
Clio Area Schools  
Clio, Michigan

We have completed our audit of the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Clio Area Schools as of and for the year ended June 30, 2019, and have issued our report dated August 29, 2019. We are required to communicate certain matters to you in accordance with auditing standards generally accepted in the United States of America that are related to internal control and the audit. The first appendix to this letter sets forth those communications as follows:

I. Auditors' Communication of Significant Matters with Those Charged with Governance

In addition, we have identified additional matters that are not required to be communicated but we believe are valuable for management:

II. Matters for Management's Consideration

We discussed these matters with various personnel in the School District during the audit and with management. We would also be pleased to meet with you to discuss these matters at your convenience.

These communications are intended solely for the information and use of management, the Board of Education, and others within the School District, and are not intended to be and should not be used by anyone other than those specified parties.

*Yeo & Yeo, P.C.*

Flint, Michigan

## Appendix I

### Auditors' Communication of Significant Matters with Those Charged with Governance

Professional standards require that we provide you with information about our responsibilities under auditing standards generally accepted in the United States of America, *Government Auditing Standards* and Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter dated May 16, 2019. Professional standards also require that we communicate to you the following information related to our audit.

#### Significant Audit Findings

##### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the School District are described in Note 1 of the financial statements. The School District has adopted the new Government Accounting Standards Board Statements as noted in the notes to the financial statements, effective July 1, 2018.

We noted no transactions entered into by the School District during the year where there is lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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 School District's financial statements were:

- The useful lives of its capital assets. Useful lives are estimated based on the expected length of time during which the asset is able to deliver a given level of service.
- Net pension liability, and related deferred outflows of resources and deferred inflows of resources. The estimate is based on an actuarial report.
- Net OPEB liability, and related deferred outflows of resources and deferred inflows of resources. The estimate is based on an actuarial report.

We have evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole and free from bias.

Disclosures in the financial statements are neutral, consistent and clear.

##### *Accounting Standards and Regulatory Updates*

#### Accounting Standards

The Governmental Accounting Standards Board has released the following Statements:

Statement No. 84, *Fiduciary Activities* improves the guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The criteria generally is on (1) is the government controlling the assets of the fiduciary activity and (2) the beneficiaries with

whom a fiduciary relationship exists. The four fiduciary funds that should be reported, if applicable are: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally will report fiduciary activities that are not held in a trust or similar arrangement that meets specific criteria. The requirements of this Statement are effective for the fiscal year ending June 30, 2020.

Statement No. 87, *Leases* increases the usefulness of the District's financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. A lessee will be required to recognize a lease liability and an intangible right-to-use a lease asset, and a lessor will be required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about the District's leasing activities. The requirements of this Statement are effective for the fiscal year ending June 30, 2021.

Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period* enhances the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and to simplify accounting for interest cost incurred before the end of a construction period. It requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reporting in a business-type activity or enterprise fund. Interest cost incurred before the end of a construction period should be recognized as an expenditure for financial statements prepared using the current financial resources measurement.

Statement No. 90, *Majority Equity Interests* improves the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and improves the relevance of financial statement information for certain components. This statement is effective for the year ending June 30, 2020.

Statement No. 91, *Conduit Debt Obligations* provides a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. This statement is effective for the year ending June 30, 2022.

The School District is evaluating the impact the above pronouncements will have on its financial reporting.

#### Regulatory and Other Updates

##### Federal Compliance

The Federal Compliance Supplement is being fully revised for 2019. Included in the revision is a mandate that the federal awarding agencies limit the requirement to test six of the compliance areas for each program. These program testing requirements are anticipated to vary on an annual basis. However, auditors will still need to perform a risk assessment to determine if any additional requirements may need to be tested, or if some of those requirements will not be necessary to test as it may not be direct and material to the program. This does not alleviate districts from following all of the compliance requirements as described in the grant agreement. It simply identifies which ones auditors will be testing.

### Budget Assumptions & Early Warning

Each school district that has a general fund balance less than 5% of total unrestricted general revenue for either of the 2016-2017 or 2017-2018 school fiscal years is required to submit budget assumptions to the Center for Educational Performance and Information (CEPI).

### Uniform Budgeting and Accounting Act (UBAA)

The UBAA establishes budget and accounting requirements for local governments and school districts, including public school academies. It also establishes oversight requirements for MDE as well as the Michigan Attorney General. Material violations of the UBAA, including but not limited to General Fund deficits, should be reported as financial statement findings in the audit report. UBAA states that if it becomes apparent during the year that the probable revenues will be less than the budgeted revenues, the fiscal officer shall present recommendations to the legislative body which, if adopted, would prevent expenditures from exceeding available revenues for the fiscal year. UBAA states that an officer of the school district shall not incur expenditures against an appropriation account in excess of the amount appropriated by the board. Noncompliance includes, but is not limited to, over-expending the budget authorized by the board. MDE is analyzing the General Fund only, and at the total revenues, expenditures and financing sources (uses) levels, rather than at the line item level. MDE has stated a 0% tolerance for UBAA noncompliance.

### *Difficulties Encountered in Performing the Audit*

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

### *Corrected and Uncorrected Misstatements*

Professional standards require that the auditor accumulate all known and likely misstatements identified during the audit, other than those the auditor believes to be trivial. The adjustments identified during the audit have been communicated to management and management has posted all adjustments.

In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

There were no uncorrected misstatements that were more than trivial.

### *Disagreements with Management*

For purposes 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 auditors' report. We are pleased to report we had no disagreements with management during the audit.

### *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated as of the date of the audit report.

### *Management's Consultations with Other Accountants*

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

### *Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to 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 to our retention.

### *Other Reports*

Other information that is required to be reported to you is included in the: Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*; Independent Auditors' Report on Compliance For Each Major Federal Program; Independent Auditors' Report on Internal Control Over Compliance; Independent Auditors' Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance; and the Schedule of Findings and Questioned Costs. Please read all information included in those reports to ensure you are aware of relevant information.

### *Report on Required Supplementary Information*

With respect to the required supplementary information accompanying the financial statements, which includes management's discussion and analysis, schedule of the school district's proportionate share of the net pension liability, schedule of the school district's pension contributions, schedule of the school district's proportionate share of the net OPEB liability, schedule of the school district's OPEB contributions, and budgetary comparison information, we applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements.

### *Report on Other Supplementary Information*

With respect to the other supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

## **Appendix II**

### **Matters for Management's Consideration**

In planning and performing our audit of the financial statements of Clio Area Schools as of and for the year ended June 30, 2019, we considered Clio Area Schools internal control over financial reporting (internal control) as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Clio Area Schools internal control. Accordingly, we do not express an opinion on the effectiveness of the Clio Area Schools internal control.

However, during our audit we became aware of several matters for management's consideration that are opportunities for strengthening internal controls, improving operating efficiency and reducing expenses. This letter does not affect our report dated August 29, 2019 on the financial statements of Clio Area Schools. Our comments and recommendations regarding those matters are:

#### **Gate Receipt Procedures**

During our audit we review your procedures for collecting cash decentralized from the main office including athletic gate receipts, latchkey programs, food service, community education, and summer programs. We believe the written procedures related to each of the areas are sufficient to detect and prevent material theft and fraud. This year we sampled 15 gate receipts to ensure that the procedures were being followed, ensure proper completion of the receipt summary, verify amounts reported were being deposited correctly, and reconciliations were being signed off on. As a result of the test, 11 of the 15 items reported a different amount being deposited compared with the amount reported. We understand that the district utilizes volunteers to assist in the ticket sale process. However we encourage the District to review the reconciliation, perform a recount, and monitor the volunteers to ensure that the proper amount is being reported and deposited in the bank.

#### **Food Service Fund Balance**

Per 7 CFR 210.14(b), the School District must limit its net cash resources to an amount that does not exceed three months' average expenditures for its non-profit school food service. We noted that the School District food service fund balance was excess of the required levels by approximately \$165,000. We recommend that the School District review its net resources throughout the year to verify that they are not in excess of three months of expenditures and develop a plan to reduce the fund balance.

#### **Procurement Policy**

During our audit we review the procurement policy that is approved by the Board of Directors. We sampled several invoices to verify that the policy is being followed. During our testing we noted one transaction that the District utilized the bid system for and subsequent changed the specifications. The District's bidding policy (6320C1 - Bidding), "Specifications must be complete and accurate to ensure that goods received conform to standards desired." We encourage the District to prepare bids in accordance with the necessary specifications and if substantial changes do occur, a second bid is prepared. Failure to rebid an item that is over the bid threshold may trigger noncompliance with District policy and state and/or Federal law.