

Clio Area Schools

Financial Statements

June 30, 2020



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Clio Area Schools
Members of the Board of Education and Administration
June 30, 2020

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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, 2020, 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, 2020, 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.

Adoption of New Accounting Standard

As described in Note 1 to the financial statements, during the year ended June 30, 2020, the School District adopted GASB Statement No. 84, *Fiduciary Activities*. Our opinions are not modified with respect to this matter.

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 September 3, 2020, 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.

Yeo & Yeo, P.C.

Flint, Michigan
September 3, 2020

MANAGEMENT'S DISCUSSION AND ANALYSIS



Clio Area Schools

We Are Family



Management's Discussion and Analysis For the Year Ended June 30, 2020

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, 2020.

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, 2020 Capital Project Fund, Cafeteria Fund, Transportation Fund, Student Activity Fund, and Sinking Fund.

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 \$ (39,495,462) at June 30, 2020. Of this amount, \$ (51,163,194) 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, 2020:

	<u>June 30, 2020</u>
Assets	
Current assets	\$ 34,116,400
Capital assets, net of depreciation	<u>10,439,637</u>
Total assets	<u><u>44,556,037</u></u>
Deferred outflows of resources	
Deferred amount of pension expense related to net pension and OPEB liabilities	<u>17,521,778</u>
Total deferred outflows of resources	17,521,778
Total assets and deferred outflows of resources	<u><u>\$ 62,077,815</u></u>
Liabilities	
Current liabilities	\$ 6,221,770
Long-term liabilities	<u>84,366,227</u>
Total liabilities	90,587,997
Deferred inflows of resources	
Deferred amount on net pension and OPEB liabilities	<u>10,985,280</u>
Total liabilities and deferred inflows of resources	101,573,277
Net Position	
Net investment in capital assets	9,825,580
Restricted for food service	759,391
Restricted for Capital Projects	1,082,761
Unrestricted	<u>(51,163,194)</u>
Total net position	<u><u>(39,495,462)</u></u>
Total liabilities and net position	<u><u>\$ 62,077,815</u></u>

Analysis of Financial Position

During fiscal year ended June 30, 2020, the School District's net position decreased by \$ 565,000. Decrease in net position for the year was primarily attributable to State Aid Fund Revenue Shortfall Reduction adjustment posted to the August State Aid payment, effectively reducing the unrestricted revenue by \$506,051 six weeks after the close of the fiscal year and due to the 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 \$ 22,494,746 for the fiscal year ended June 30, 2020. 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, 2020, the depreciation expense was \$ 1,009,865.

C. Capital Acquisitions

Additions to capital outlay for the year ended June 30, 2020, totaled \$ 1,381,185. Capital outlay was offset by current year depreciation expense of \$ 1,009,865, creating a net position decrease from capital outlays of \$ 371,320.

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 \$ 1,406,836 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, 2020 is as follows:

Revenue

General revenue:	
Property taxes, levied for general purposes	\$ 2,847,264
Property taxes, levied for capital projects	1,061,011
State of Michigan aid, unrestricted	19,656,871
Gain on Sale of Capital Assets	7,016
Other general revenue	<u>67,710</u>
Total general revenue	<u>23,639,872</u>
Program revenue:	
Charges for services	1,301,834
Operating grants and contributions	<u>7,655,014</u>
Total revenue	<u>32,596,720</u>
Expenses	
Instruction	19,169,499
Supporting services	11,643,971
Food services	1,393,408
Community service	408,563
Interest and fiscal charges on long-term debt	<u>546,279</u>
Total expenses	<u>33,161,720</u>
Change in net position	(565,000)
Net position – July 1, 2019 (restated)	<u>(38,930,462)</u>
Net position – June 30, 2020	<u>\$ (39,495,462)</u>

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, Student Activity Fund, and Sinking 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 \$ 911,494, or 3% of expenditures, during the year ended June 30, 2020. Ending fund equity in the General Fund was \$ 5,000,070 on June 30, 2020, which equates to 17.6% of expenditures for the year. This level was up from \$ 4,088,576 on June 30, 2019.

B. Capital Projects - Bond

The district sold project bonds, closing June 30, 2020. The voters approved this sale for upgrade and renovation of instructional facilities and support departments and areas, including athletic facilities. The first series was issued for \$20,955,000. Repayments schedule included interest rates from 2.25%-2.63% for 26 years. A debt tax levy will provide property tax revenue sufficient to cover current year payments due.

C. Nonmajor Governmental Funds

Nonmajor governmental funds experienced an increase in fund equity of \$ 800,691 during the year. The Cafeteria Fund balance increased from the prior year. Revenues exceeded expenditures by \$ 218,139, resulting in ending fund equity of \$804,481 or 59.48% of expenditures for the year. The Transportation Fund reported revenues of \$ 379,137 generated from fees and expenditures of \$ 322,267, allowing \$ 56,870 to be transferred to the general fund. During the year, GASB 84 was implemented which established a new governmental fund labeled the Student Activity Fund. This caused a restatement in beginning fund balance of \$ 236,175. The ending fund balance in this fund was \$ 269,385, which is committed for student activities. The Sinking Fund experienced an increase in fund equity of \$ 549,342, resulting in ending fund equity of \$ 1,082,761.

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 \$ 29.09 million. This is above the original budget estimate of \$ 28.53 million and above the final budgeted amount of \$ 27.30 million, a variance of \$ 1,762,312 or 6.45%. The actual expenditures of the General Fund were \$ 28.26 million. This is below the original budget estimate of \$ 29.12 million and below the final budgeted amount of \$ 28.75 million, a variance of \$ 496,962, or 1.73%.

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.
- Revenue from state sources was budgeted (final) for a \$2,000,000 state aid shortfall reduction. Actual was only 25% of that.
- 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 most areas due to the abrupt end of school including athletics, transportation diesel fuel and supplies.

The General fund revenues and other financing sources exceeded expenditures by \$ 911,494 for the year ended June 30, 2020, which resulted in a 3.5% increase in fund equity. The ending fund equity in the General Fund was \$ 5,000,070 at June 30, 2020, which equates to 17.7% of expenditures for the year. This level was up from \$ 4,088,576 on June 30, 2019.

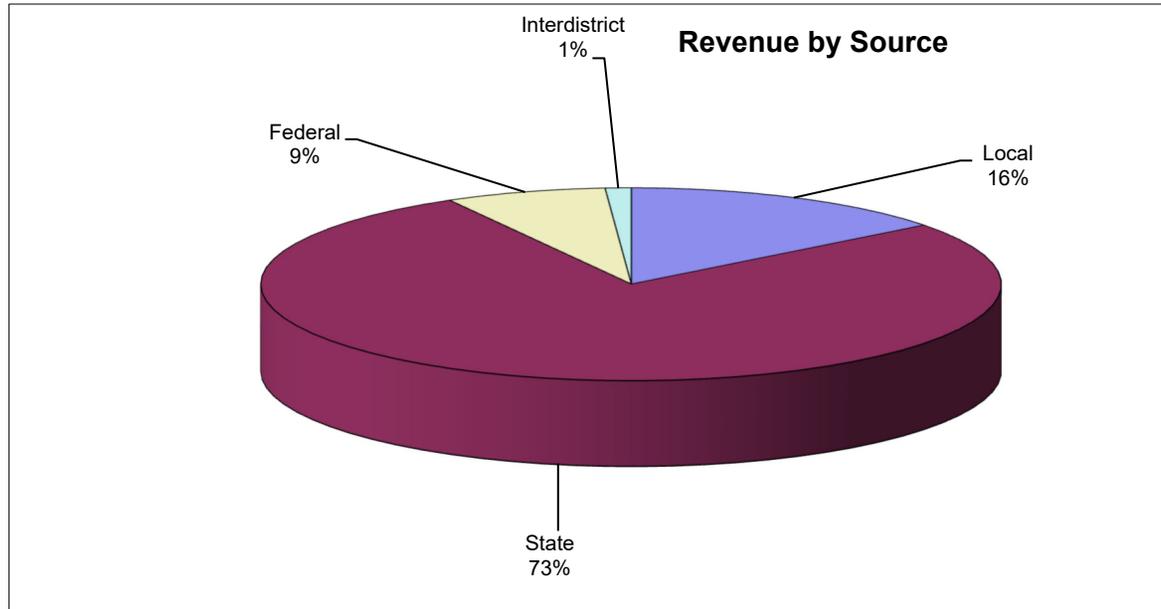
B. 2020 Capital Projects Fund

The 2020 Capital Projects Fund received revenues from proceeds on issuance of bonds and premium from issuance on bonds during the current fiscal year. Expenditures take the form of capital improvement projects for major repairs and improvements to the School District's facilities. The School District's 2020 Capital Projects Fund was established during the 19/20 fiscal year.

The 2020 Capital Projects Fund ended the fiscal year with assets of almost \$21 million due to the sale of the first series of facility bonds. This fund will continue to be reported separately during the construction cycle.

Governmental Fund Revenues

Revenues for all governmental funds totaled \$ 32.60 million for 2019/2020. 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, 2020, the foundation allowance for Clio Area Schools was established at \$ 8,111, an increase of \$ 240 per student from the 2018/2019 foundation allowance.

Student enrollment for state aid for the 2019/2020 year was 2,892, a decrease of 84 full time equated students from 2018/2019.

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>
2019/2020	2,892	(84)	\$8,111/\$7,936*****	\$240
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.

***** The district received a \$175 proration in 2019/2020.

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 2019/2020 and property tax revenue was \$ 2.85 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 2019/2020 year and property tax revenue was \$ 1.06 million.

Governmental Fund Expenditures

The following chart illustrates that the General Fund comprises 90.0% of all expenditures within the governmental funds of the School District. As of June 30, 2020, expenditures and other financing uses totaled \$ 31.4 million for all School District programs. The ending fund equity for all funds was \$ 27.9 million.

	Expenditures & Other Uses (In millions)	Percent of <u>Total</u>
General Fund	\$ 28.26	90.0%
Other Governmental Funds	<u>3.15</u>	<u>10.0%</u>
Total	<u>\$ 31.41</u>	100.0%

Capital Asset and Debt Administration

A. Capital Assets

At June 30, 2020, the School District had \$ 30.21 million invested in land and buildings, furniture and equipment, buses and other vehicles, and construction in progress. Of this amount, \$ 19.77 million has been depreciated, which resulted in a net book value of \$ 10.44 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, 2020

	Amount (In millions)
Land, buildings and additions	\$ 24.67
Equipment and furniture	3.16
Buses and other vehicles	<u>2.38</u>
Total	\$ 30.21
Less accumulated depreciation	<u>(19.77)</u>
Net capital assets	<u>\$ 10.44</u>

B. Long-Term Debt

At June 30, 2020, the School District sold capital project bonds. Principal and interest payments total \$27.2 million to be repaid over 26 years.

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

In May 2020, the district voters passed a \$40 million bond issue. During that campaign, the district agreed to only levy .5 mils of the 2 mils entitled for the Sinking Fund. This will reduce expected revenue for that program by \$1.5 million.

Adoption of New Accounting Standards

The District adopted GASB Statement No. 84, *Fiduciary Activities* improves the guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how these activities should be reported. It establishes a criteria for identifying fiduciary

activities that focuses on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. This Statement describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. A fiduciary component unit, when reported in the fiduciary fund financial statements of a primary government, should combine its information with its component units that are fiduciary component units and aggregate that combined information with the primary government's fiduciary funds. The requirements of this Statement are effective for the fiscal year ending June 30, 2020.

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

Clio Area Schools
Statement of Net Position
June 30, 2020

	<u>Governmental Activities</u>
Assets	
Cash	\$ 8,942,464
Accounts receivable	9,791
Due from other governmental units	4,338,335
Inventory	35,569
Investments	20,748,400
Prepaid items	41,841
Capital assets not being depreciated	231,127
Capital assets - net of accumulated depreciation	<u>10,208,510</u>
 Total assets	 <u>44,556,037</u>
 Deferred outflows of resources	
Deferred amount relating to the net pension liability	14,232,560
Deferred amount relating to the net OPEB liability	<u>3,289,218</u>
 Total deferred outflows of resources	 <u>17,521,778</u>

See Accompanying Notes to the Financial Statements

Clio Area Schools
Statement of Net Position
June 30, 2020

	Governmental Activities
Liabilities	
Accounts payable	\$ 727,100
State aid anticipation note payable	3,000,000
Due to other governmental units	305,729
Accrued expenditures	44,628
Accrued salaries payable	2,093,017
Unearned revenue	51,296
Long-term liabilities	
Net pension liability	51,810,059
Net OPEB liability	10,995,111
Debt due within one year	1,323,959
Debt due in more than one year	20,237,098
Total liabilities	90,587,997
Deferred inflows of resources	
Deferred amount relating to the net pension liability	5,803,795
Deferred amount relating to the net OPEB liability	5,181,485
Total deferred inflows of resources	10,985,280
Net Position	
Net investment in capital assets	9,825,580
Restricted for	
Food service	759,391
Capital projects	1,082,761
Unrestricted (deficit)	(51,163,194)
Total net position	\$ (39,495,462)

See Accompanying Notes to the Financial Statements

Clio Area Schools
Statement of Activities
For the Year Ended June 30, 2020

	Program Revenues		Net (Expense)
Expenses	Charges for Services	Operating Grants and Contributions	Revenue and Changes in Net Position
Functions/Programs			
Governmental activities			
Instruction	\$ 19,169,499	\$ -	\$ 5,962,770
Supporting services	11,643,971	588,585	306,478
Food services	1,393,408	206,910	1,384,023
Community services	408,563	506,339	1,743
Interest and fiscal charges on long-term debt	546,279	-	-
Total governmental activities	\$ 33,161,720	\$ 1,301,834	\$ 7,655,014
General revenues			
			2,847,264
			1,061,011
			19,656,871
			7,016
			67,710
Total general revenues			23,639,872
Change in net position			(565,000)
Net position - beginning, as restated			(38,930,462)
Net position - ending			\$ (39,495,462)

See Accompanying Notes to the Financial Statements

**Clio Area Schools
Governmental Funds
Balance Sheet
June 30, 2020**

	<u>General Fund</u>	<u>2020 Capital Projects</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets				
Cash	\$ 6,883,080	\$ 198,600	\$ 1,860,784	\$ 8,942,464
Accounts receivable	9,791	-	-	9,791
Due from other funds	28,121	-	307,301	335,422
Due from other governmental units	4,236,939	-	101,396	4,338,335
Inventory	12,790	-	22,779	35,569
Investments	-	20,748,400	-	20,748,400
Prepaid items	41,841	-	-	41,841
	<u>41,841</u>	<u>-</u>	<u>-</u>	<u>41,841</u>
Total assets	<u>\$ 11,212,562</u>	<u>\$ 20,947,000</u>	<u>\$ 2,292,260</u>	<u>\$ 34,451,822</u>

**Clio Area Schools
Governmental Funds
Balance Sheet
June 30, 2020**

	General Fund	2020 Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
Liabilities				
Accounts payable	\$ 477,174	\$ 164,439	\$ 85,487	\$ 727,100
State aid anticipation note payable	3,000,000	-	-	3,000,000
Due to other funds	307,101	-	28,321	335,422
Due to other governmental units	305,729	-	-	305,729
Accrued salaries payable	2,093,017	-	-	2,093,017
Unearned revenue	29,471	-	21,825	51,296
	<u>6,212,492</u>	<u>164,439</u>	<u>135,633</u>	<u>6,512,564</u>
Total liabilities				
Fund Balance				
Non-spendable				
Inventory	12,790	-	22,779	35,569
Prepaid items	41,841	-	-	41,841
Restricted for				
Food service	-	-	781,702	781,702
Capital projects	-	20,782,561	1,082,761	21,865,322
Committed for student activity	-	-	269,385	269,385
Assigned for 2020-21 excess budgeted expenditures over revenues	2,367,060	-	-	2,367,060
Unassigned	2,578,379	-	-	2,578,379
	<u>5,000,070</u>	<u>20,782,561</u>	<u>2,156,627</u>	<u>27,939,258</u>
Total fund balance				
	<u>\$ 11,212,562</u>	<u>\$ 20,947,000</u>	<u>\$ 2,292,260</u>	<u>\$ 34,451,822</u>
Total liabilities and fund balance				

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, 2020

Total fund balances for governmental funds	\$ 27,939,258
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	231,127
Capital assets - net of accumulated depreciation	10,208,510
Deferred outflows (inflows) of resources	
Deferred inflows of resources resulting from the net pension liability	(5,803,795)
Deferred outflows of resources resulting from the net pension liability	14,232,560
Deferred inflows of resources resulting from the net OPEB liability	(5,181,485)
Deferred outflows of resources resulting from the OPEB liability	3,289,218
Certain liabilities are not due and payable in the current period and are not reported in the funds.	
Accrued interest	(44,628)
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	(51,810,059)
Net OPEB liability	(10,995,111)
Compensated absences	(151,225)
Bonds Payable	(21,308,721)
Other loans payable and liabilities	<u>(101,111)</u>
Net position of governmental activities	<u>\$ (39,495,462)</u>

Clio Area Schools
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2020

	General Fund	2020 Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
Revenues				
Local sources	\$ 3,128,785	\$ -	\$ 2,122,085	\$ 5,250,870
State sources	23,886,649	-	48,466	23,935,115
Federal sources	1,644,837	-	1,335,557	2,980,394
Interdistrict sources	430,341	-	-	430,341
	<u>29,090,612</u>	<u>-</u>	<u>3,506,108</u>	<u>32,596,720</u>
Total revenues				
Expenditures				
Current				
Education				
Instruction	17,840,258	-	-	17,840,258
Supporting services	9,920,548	-	762,042	10,682,590
Food services	-	-	1,352,544	1,352,544
Community services	396,581	-	-	396,581
Facilities acquisition	-	29,567	513,711	543,278
Debt service				
Principal	93,793	-	-	93,793
Interest and other expenditures	5,058	-	-	5,058
Bond issuance costs	-	496,593	-	496,593
	<u>28,256,238</u>	<u>526,160</u>	<u>2,628,297</u>	<u>31,410,695</u>
Total expenditures				
Excess of revenues over expenditures	<u>834,374</u>	<u>(526,160)</u>	<u>877,811</u>	<u>1,186,025</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, 2020

	General Fund	2020 Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
Other Financing Sources (Uses)				
Proceeds from issuance of bonds	-	20,955,000	-	20,955,000
Premium on issuance of bonds	-	353,721	-	353,721
Transfers in	77,120	-	-	77,120
Transfers out	-	-	(77,120)	(77,120)
	<u>77,120</u>	<u>21,308,721</u>	<u>(77,120)</u>	<u>21,308,721</u>
Total other financing sources (uses)				
Net change in fund balance	911,494	20,782,561	800,691	22,494,746
Fund balance - beginning, as restated	<u>4,088,576</u>	<u>-</u>	<u>1,355,936</u>	<u>5,444,512</u>
Fund balance - ending	<u>\$ 5,000,070</u>	<u>\$ 20,782,561</u>	<u>\$ 2,156,627</u>	<u>\$ 27,939,258</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, 2020

Net change in fund balances - total governmental funds	\$ 22,494,746
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	(1,009,865)
Capital outlay	638,545
Expenses are recorded when incurred in the statement of activities.	
Interest	(44,628)
Compensated absences	(22,034)
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	(2,769,929)
Net change in the deferrals of resources related to the net pension liability	365,492
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	1,723,827
Net change in the deferrals of resources related to the net OPEB liability	(726,226)
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.	
Debt issued	(21,308,721)
Repayments of long-term debt	93,793
Change in net position of governmental activities	\$ (565,000)

See Accompanying Notes to the Financial Statements

Clio Area Schools
Notes to the Financial Statements
June 30, 2020

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 and OPEB 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

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

Clio Area Schools
Notes to the Financial Statements
June 30, 2020

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.

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.

2020 Capital Projects Fund – This fund is used to record bond proceeds or other revenue and the disbursement of invoices specifically for acquiring new school sites, building, equipment, and for remodeling and repairs. The fund is kept open until the purpose for which the fund was created has been accomplished.

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, Transportation Fund, and the Student Activity 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.

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, 2020, 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 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

Clio Area Schools
Notes to the Financial Statements
June 30, 2020

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 (MPERS) and additions to/deductions from MPERS fiduciary net position have been determined on the same basis as they are reported by MPERS. 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.

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 (MPERS) and additions to/deductions from MPERS fiduciary net position have been determined on the same basis as they are reported by MPERS. 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

Clio Area Schools
Notes to the Financial Statements
June 30, 2020

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 Balance – 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.

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. 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

Clio Area Schools
Notes to the Financial Statements
June 30, 2020

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. Management has determined to implement the requirements of this Statement for the fiscal year ending June 30, 2020, in accordance with the original implementation date of the statement.

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. Management has determined to implement the requirements of this Statement for the fiscal year ending June 30, 2020, in accordance with the original implementation date of the statement.

Statement No. 92, *Omnibus 2020* enhances comparability in accounting and financial reporting and improves the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics and includes specific provisions about the following: (1) The effective date of Statement No. 87, *Leases*, and Implementation Guide No. 2019-3, *Leases*, for interim financial reports (2) Reporting of intra-entity transfers of assets between a primary government employer and a component unit defined benefit pension plan or defined benefit other postemployment benefit (OPEB) plan. (3) The applicability of Statements No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68*, and Amendments to Certain Provisions of GASB Statements 67 and 68, as amended, and No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, to reporting assets accumulated for postemployment benefits. (4) The applicability of certain requirements of Statement No. 84, *Fiduciary Activities*, to postemployment benefit arrangements. (5) Measurement of liabilities (and assets, if any) related to asset

retirement obligations (AROs) in a government acquisition. (6) Reporting by public entity risk pools for amounts that are recoverable from reinsurers or excess insurers. (7) Reference to nonrecurring fair value measurements of assets or liabilities in authoritative literature. (8) Terminology used to refer to derivative instruments. Management has implemented the required portions of this Statement and will implement the remaining requirements as each Statement referenced becomes effective.

Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance* provides a temporary relief to governments and other stakeholders in light of the COVID-19 pandemic and provides a postponement of certain GASB Statements. This statement was effective upon issuance in May of 2020.

Upcoming Accounting and Reporting Changes

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, 2022.

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

Clio Area Schools
Notes to the Financial Statements
June 30, 2020

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, 2022.

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, 2023.

Statement No. 93, *Replacement of Interbank Offered Rates* establishes accounting and financial reporting requirements related to the replacement of IBORs in hedging derivative instruments and leases. It also identifies appropriate benchmark interest rates for hedging derivative instruments. The requirements of this Statement apply to the financial statements of all state and local governments. The requirements of this Statement apply to the financial statements of all state and local governments. This statement is effective for the year ending June 30, 2022.

Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements* improves financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). As used in this Statement, a PPP is an arrangement in which a government (the transferor) contracts with

an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. Some PPPs meet the definition of a service concession arrangement (SCA), which the Board defines in this Statement as a PPP in which (1) the operator collects and is compensated by fees from third parties; (2) the transferor determines or has the ability to modify or approve which services the operator is required to provide, to whom the operator is required to provide the services, and the prices or rates that can be charged for the services; and (3) the transferor is entitled to significant residual interest in the service utility of the underlying PPP asset at the end of the arrangement. This Statement also provides guidance for accounting and financial reporting for availability payment arrangements (APAs). As defined in this Statement, an APA is an arrangement in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction. This statement is effective for the year ending June 30, 2023.

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

Clio Area Schools
Notes to the Financial Statements
June 30, 2020

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.

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			
Basic programs	\$ 14,140,651	\$ 14,190,574	\$ 49,923
Debt - principal	91,000	93,793	2,793

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.

Compliance - Bond Proceeds

The 2020 Capital Project Fund is a fund that includes capital project activities funded with a bond issued June 30, 2020. For these capital projects, management believes the School District has complied, in all material respects, with the applicable provisions of Section 1351a of

the Revised School Code. The following is a summary of the revenue and expenditures in the 2020 Building and Site Bond Funds from the inception of the funds through the current fiscal year:

	<u>2020 Bond</u>
Revenues	\$ 21,308,721
Expenditures	526,160

Note 3 - Deposits and Investments

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

	<u>Governmental Activities</u>
Cash and deposits	\$ 8,942,464
Investments	<u>20,748,400</u>
	<u>\$ 29,690,864</u>

The break down between deposits and investments for the School District is as follows:

Deposits (checking, savings accounts, money markets, certificates of deposit)	<u>\$ 29,690,864</u>
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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

Clio Area Schools
Notes to the Financial Statements
June 30, 2020

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, \$ 8,827,143 of the School District's bank balance of \$ 9,077,143 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial credit risk – investments – For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. As of year end, none of the School District's investments were exposed to custodial credit risk.

Note 4 - Capital Assets

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

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets not being depreciated				
Land	\$ 90,000	\$ -	\$ -	\$ 90,000
Construction-in-progress	<u>537,628</u>	<u>141,127</u>	<u>537,628</u>	<u>141,127</u>
Total capital assets not being depreciated	<u>627,628</u>	<u>141,127</u>	<u>537,628</u>	<u>231,127</u>
Capital assets being depreciated				
Buildings and additions	24,219,365	217,257	-	24,436,622
Equipment and furniture	2,562,755	600,407	-	3,163,162
Buses and other vehicles	<u>2,318,142</u>	<u>217,381</u>	<u>157,504</u>	<u>2,378,019</u>
Total capital assets being depreciated	<u>29,100,262</u>	<u>1,035,045</u>	<u>157,504</u>	<u>29,977,803</u>
Less accumulated depreciation for				
Buildings and additions	15,285,114	782,576	-	16,067,690
Equipment and furniture	1,886,691	104,356	-	1,991,047
Buses and other vehicles	<u>1,745,127</u>	<u>122,933</u>	<u>157,504</u>	<u>1,710,556</u>
Total accumulated depreciation	<u>18,916,932</u>	<u>1,009,865</u>	<u>157,504</u>	<u>19,769,293</u>
Net capital assets being depreciated	<u>10,183,330</u>	<u>25,180</u>	<u>-</u>	<u>10,208,510</u>
Net capital assets	<u>\$ 10,810,958</u>	<u>\$ 166,307</u>	<u>\$ 537,628</u>	<u>\$ 10,439,637</u>

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Depreciation for the fiscal year ended June 30, 2020 amounted to \$ 1,009,865. The School District allocated depreciation to the various governmental activities as follows:

Instruction	\$ 595,146
Support services	356,368
Food services	45,121
Community services	<u>13,230</u>
 Total governmental activities	 <u>\$ 1,009,865</u>

Construction Contracts

As of year end, the School District had the following construction contracts in progress:

Project	Total Contract	Remaining Construction Commitment at Year End	Contracts Payable at Year End
Demolition of buildings	\$ 131,510	\$ 126,519	\$ 4,991
HS renovations	<u>18,260</u>	<u>14,608</u>	<u>3,652</u>
	<u>\$ 149,770</u>	<u>\$ 141,127</u>	<u>\$ 8,643</u>

Note 5 - Interfund Receivables, Payables, and Transfers

Individual interfund receivable and payable balances at year end were:

<u>Payable Fund</u>	<u>Receivable Fund</u>	<u>Amount</u>
Nonmajor Funds	General Fund	\$ 28,321
General Fund	Nonmajor Funds	<u>307,101</u>
		<u>\$ 335,422</u>

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 \$ 20,250 were made from the Food Service Fund to the General Fund for indirect cost recovery. Additionally, transfers of \$ 56,870 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	\$ 21,825
Grant and categorical aid payments received prior to meeting all eligibility requirements	29,471
Total	\$ 51,296

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
Bonds and premiums payable					
General obligation bonds	\$ -	\$ 20,955,000	\$ -	\$ 20,955,000	\$ 1,255,000
Premium on bonds	-	353,721	-	353,721	-
	-	21,308,721	-	21,308,721	1,255,000
Notes from direct borrowings and direct placements					
Notes payable	194,904	-	93,793	101,111	49,959
Other liabilities					
Compensated absences	129,191	30,107	8,073	151,225	19,000
Total	\$ 324,095	\$ 21,338,828	\$ 101,866	\$ 21,561,057	\$ 1,323,959

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

General Obligation Bonds

General obligation bonds payable at year end, consist of the following:

\$ 20,955,000 serial bond due in annual installments of \$ 1,760,000 to \$ 660,00 through May 1, 2047, interest at 2.25% to 2.63%	\$ 20,955,000
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Notes to the Financial Statements
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Future principal and interest requirements for bonded debt are as follows:

Year Ending June 30,	Principal	Interest	Total
2021	\$ 1,255,000	\$ 407,479	\$ 1,662,479
2022	1,660,000	459,113	2,119,113
2023	1,760,000	421,763	2,181,763
2024	660,000	382,163	1,042,163
2025	660,000	367,313	1,027,313
2026 - 2030	3,305,000	1,613,813	4,918,813
2031 - 2035	3,330,000	1,240,875	4,570,875
2036 - 2040	3,380,000	863,931	4,243,931
2041 - 2045	3,515,000	453,188	3,968,188
2046 - 2047	1,430,000	56,303	1,486,303
	<u>\$ 20,955,000</u>	<u>\$ 6,265,941</u>	<u>\$ 27,220,941</u>

There were no payments on the bond for the year ended June 30, 2020, and payments will begin in November 2020.

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:

Year Ending June 30,	Notes from direct borrowings and direct placements		
	Principal	Interest	Total
2021	\$ 49,959	\$ 2,417	\$ 52,376
2022	<u>51,152</u>	<u>1,222</u>	<u>52,374</u>
	<u>\$ 101,111</u>	<u>\$ 3,639</u>	<u>\$ 104,750</u>

The School District's outstanding notes from direct borrowings and direct placements related to governmental activities of \$ 101,111 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 amount anticipated to be paid out over the next year is included within the amounts listed as due within one 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 30th.

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.

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

	Beginning Balance	Proceeds	Repayments	Ending Balance
State aid anticipation note	<u>\$ 3,000,000</u>	<u>\$ 3,000,000</u>	<u>\$ 3,000,000</u>	<u>\$ 3,000,000</u>

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.

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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 MPERS) 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.

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.

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, 2018 valuation will be amortized over a 20-year period beginning Oct. 1, 2018 and ending Sept. 30, 2038.

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The schedule below summarizes pension contribution rates in effect for fiscal year ended September 30, 2019.

<u>Pension Contribution Rates</u>		
<u>Benefit Structure</u>	<u>Member</u>	<u>Employer</u>
Basic	0.0 - 4.0%	18.25%
Member Investment Plan	3.0 - 7.0%	18.25%
Pension Plus	3.0 - 6.4%	16.46%
Pension Plus 2	6.2%	19.59%
Defined Contribution	0.0%	13.39%

Required contributions to the pension plan from the School District were \$4,156,081 for the year ending September 30, 2019.

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

At June 30, 2020, the School District reported a liability of \$ 51,810,059 for its proportionate share of the MPERS net pension liability. The net pension liability was measured as of September 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 2018. 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, 2019, the School District's proportion was .1564 percent, which was a decrease of .0067 percent from its proportion measured as of September 30, 2018.

For the plan year ending September 30, 2019, the School District recognized pension expense of \$ 6,917,052 during the reporting period. For the reporting period ending June 30, 2020, the School District recognized total pension contribution expense of \$ 4,192,602.

At June 30, 2020, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>	<u>Total</u>
Difference between expected and actual experience	\$ 232,229	\$ (216,043)	\$ 16,186
Changes of assumptions	10,144,446	-	10,144,446
Net difference between projected and actual earnings on pension plan investments	-	(1,660,424)	(1,660,424)
Changes in proportion and differences between the School District contributions and proportionate share of contributions	-	(2,246,577)	(2,246,577)
Total to be recognized in future	10,376,675	(4,123,044)	6,253,631
School District contributions subsequent to the measurement date	3,855,885	(1,680,751)	2,175,134
Total	<u>\$ 14,232,560</u>	<u>\$ (5,803,795)</u>	<u>\$ 8,428,765</u>

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, 2021. The District will offset the contribution expense in the year ended June 30, 2021 with the 147c supplemental income received subsequent to the measurement date which is included in the deferred inflows of resources.

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Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows during the following plan years:

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

2020	\$ 2,554,380
2021	1,958,395
2022	1,230,886
2023	<u>509,970</u>
	<u><u>\$ 6,253,631</u></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, 2018
- Actuarial Cost Method: Entry Age, Normal
- Wage inflation rate: 2.75%
- Investment Rate of Return:
 - MIP and Basic Plans: 6.80%
 - Pension Plus Plan: 6.80%
 - 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
- 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, 2019, is based on the results of an actuarial valuation date of September 30, 2018, 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: 4.4977.

Recognition period for assets is 5 years.

Full actuarial assumptions are available in the 2019 MPSERS Comprehensive Annual Financial Report found on the ORS website at 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-

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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, 2019, are summarized in the following table:

Asset Class	Target Allocation	Long Term Expected Real Rate of
Domestic Equity Pools	28.0 %	5.5 %
Alternative Investment Pools	18.0	8.6
International Equity	16.0	7.3
Fixed Income Pools	10.5	1.2
Real Estate and Infrastructure Pools	10.0	4.2
Absolute Return Pools	15.5	5.4
Short Term Investment Pools	2.0	0.8
	<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, 2019, the annual money-weighted rate of return on pension plan investment, net of pension plan investment expense, was 5.14%. 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 6.80% was used to measure the total pension liability (6.80% for the Pension Plus plan, 6.0% for the Pension plus 2, hybrid plans provided through non-university employers only). This discount rate was based on the long-term expected rate of return on pension plan investments of 6.80% (6.80% 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 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 6.80% (6.80 for the Pension Plus plan, 6.0% for the Pension Plus 2 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:

1% Decrease *	Current Single Discount Rate Assumption *	1% Increase *
5.80% / 5.80% / 5.00%	6.80% / 6.80% / 6.00%	7.80% / 7.80% / 7.00%
<u>\$ 67,356,391</u>	<u>\$ 51,810,059</u>	<u>\$ 38,921,614</u>

*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 (MPERS) Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued MPERS CAFR, available on the ORS website at www.michigan.gov/orsschools.

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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.

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

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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, 2018 valuation will be amortized over a 20-year period beginning Oct. 1, 2018 and ending Sept. 30, 2038

The schedule below summarizes OPEB contribution rates in effect for fiscal year 2019.

OPEB Contribution Rates		
Benefit Structure	Member	Employer
Premium Subsidy	3.0%	7.93%
Personal Healthcare Fund (PHF)	0.0%	7.57%

Required contributions to the OPEB plan from the School District were \$ 1,051,768 for the year ended September 30, 2019.

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

At June 30, 2020, the School District reported a liability of \$ 10,995,111 for its proportionate share of the MPSERS net OPEB liability. The net OPEB liability was measured as of September 30, 2019, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation rolled forward from September 2018. 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, 2019, the School District's proportion was .1532 percent, which was a decrease of .0068 from its proportion measured as of September 30, 2018.

For the plan year ending September 30, 2019, the School District recognized OPEB expense of \$ 49,358 during the measurement period. For the reporting period ending June 30, 2020, the School District recognized total OPEB contribution expense of \$ 1,042,085.

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Notes to the Financial Statements
June 30, 2020

At June 30, 2020, 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	\$ -	\$(4,034,417)	\$(4,034,417)
Changes of assumptions	2,382,418	-	2,382,418
Net difference between projected and actual earnings on OPEB plan investments	-	(191,210)	(191,210)
Changes in proportion and differences between the School District contributions and proportionate share of contributions	<u>214</u>	<u>(955,858)</u>	<u>(955,644)</u>
Total to be recognized in future	2,382,632	(5,181,485)	(2,798,853)
School District contributions subsequent to the measurement date	<u>906,586</u>	<u>-</u>	<u>906,586</u>
Total	<u>\$ 3,289,218</u>	<u>\$(5,181,485)</u>	<u>\$(1,892,267)</u>

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, 2021.

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

Deferred (Inflow) and Deferred Outflow of Resources by Year (To Be Recognized in Future OPEB Expenses)	
2020	\$ (743,746)
2021	(743,746)
2022	(648,282)
2023	(450,976)
2024	<u>(212,103)</u>
	<u>\$(2,798,853)</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, 2018
- Actuarial Cost Method: Entry Age, Normal
- Wage inflation rate: 2.75%
- Investment Rate of Return: 6.95%
- Projected Salary Increases: 2.75 – 11.55%, including wage inflation at 2.75%

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- Healthcare Cost Trend Rate: 7.5% Year 1 graded to 3.5% 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, 2019, is based on the results of an actuarial valuation date of September 30, 2018, 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 is 5.7101 years.

Recognition period for assets is 5 years.

Full actuarial assumptions are available in the 2019 MPSERS Comprehensive Annual Financial Report found on the ORS website at 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, 2019, are summarized in the following table:

Asset Class	Target Allocation	Long Term Expected Real Rate of
Domestic Equity Pools	28.0 %	5.5 %
Alternative Investment Pools	18.0	8.6
International Equity	16.0	7.3
Fixed Income Pools	10.5	1.2
Real Estate and Infrastructure Pools	10.0	4.2
Absolute Return Pools	15.5	5.4
Short Term Investment Pools	2.0	0.8
	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, 2019, the annual money-weighted rate of return on OPEB plan investment, net of OPEB plan investment expense, was 5.37%. The money-weighted rate of return

Clio Area Schools
Notes to the Financial Statements
June 30, 2020

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

Discount Rate

A discount rate of 6.95% 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 6.95%. 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 6.95%, 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:

1% Decrease 5.95%	Current Discount Rate 6.95%	1% Increase 7.95%
\$ 13,487,155	\$ 10,995,111	\$ 8,902,485

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:

1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
\$ 8,813,767	\$ 10,995,111	\$ 13,486,860

OPEB Plan Fiduciary Net Position

Detailed information about the OPEB plan's fiduciary net position is available in the separately issued 2019 MPSERS CAFR, available on the ORS website at 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, 2020.

Clio Area Schools
Notes to the Financial Statements
June 30, 2020

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, 2020, 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.

Note 14 - Change in Accounting Principle

As indicated in Note 1, Governmental Accounting Standards Board Statement 84 has been adopted. The standard requires this change be applied retroactively. The impact of this change is to reduce beginning net position in the statement of activities as of July 1, 2019 by \$ 236,175, restating it from (\$ 39,166,637) to (\$ 38,930,462).

Note 15 - Subsequent Events

As result of the global coronavirus pandemic of 2020, the financial picture for Michigan School Districts has seen an unanticipated change. The duration and full effects of the outbreak are currently unknown, as the local and global picture continues to change frequently. To reduce the chance of spreading COVID-19; in March 2020, public schools were closed for the remainder of the 2019-2020 school year. As a result of the pandemic, the State of Michigan encountered a revenue shortfall resulting in a revenue reduction for Districts of \$175 per pupil which reduced the state aid payment in August of 2020. Subsequent to year end, multiple new revenue sources were approved; including Public Act 123 of 2020 which provides

Districts an approximate \$12.32 per pupil and Public Act 146 of 2020 which provides Districts \$350 per pupil. These new revenue streams approved after June 30, 2020 will be recognized in the fiscal year ended June 30, 2021 in accordance with reporting criteria established by the Governmental Accounting Standards Board. Additionally, the "Return to Learn" legislation passed subsequent to year end which modifies the per pupil foundation allowance calculation and allows flexibilities in the days and attendance requirements for Districts. Local districts are able to decide whether to provide instruction virtually or face to face for the 2020-2021 school year. Currently, it is not possible to estimate the full extent of any potential impacts to the District or to determine if any changes in fair values are other than temporary in nature. Accordingly, no adjustments to the financial statements were made as a result of these events.

REQUIRED SUPPLEMENTARY INFORMATION

Clio Area Schools
Required Supplementary Information
Budgetary Comparison Schedule - General Fund
For the Year Ended June 30, 2020

	Budgeted Amounts		Actual	Over (Under) Budget
	Original	Final		
Revenues				
Local sources	\$ 3,082,900	\$ 3,002,300	\$ 3,128,785	\$ 126,485
State sources	23,949,100	22,362,565	23,886,649	1,524,084
Federal sources	1,234,200	1,656,035	1,644,837	(11,198)
Interdistrict sources	<u>267,700</u>	<u>307,400</u>	<u>430,341</u>	<u>122,941</u>
Total revenues	<u>28,533,900</u>	<u>27,328,300</u>	<u>29,090,612</u>	<u>1,762,312</u>
Expenditures				
Instruction				
Basic programs	14,438,400	14,140,651	14,190,574	49,923
Added needs	3,655,400	3,745,598	3,649,684	(95,914)
Supporting services				
Pupil	1,448,800	1,476,809	1,440,399	(36,410)
Instructional staff	751,000	888,192	856,575	(31,617)
General administration	451,800	467,700	403,326	(64,374)
School administration	1,996,000	2,101,300	2,043,892	(57,408)
Business	582,200	629,800	620,660	(9,140)
Operations and maintenance	2,442,800	2,218,572	2,104,086	(114,486)
Pupil transportation services	1,501,000	1,469,350	1,393,571	(75,779)
Central	643,600	606,200	586,770	(19,430)
Athletic activities	554,400	487,500	471,269	(16,231)
Community services	567,800	422,428	396,581	(25,847)
Debt service				
Principal	75,500	91,000	93,793	2,793
Interest and fiscal charges	<u>9,100</u>	<u>8,100</u>	<u>5,058</u>	<u>(3,042)</u>
Total expenditures	<u>29,117,800</u>	<u>28,753,200</u>	<u>28,256,238</u>	<u>(496,962)</u>
Excess of revenues over expenditures	<u>(583,900)</u>	<u>(1,424,900)</u>	<u>834,374</u>	<u>2,259,274</u>

Clio Area Schools
Required Supplementary Information
Budgetary Comparison Schedule - General Fund
For the Year Ended June 30, 2020

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Over (Under) Budget</u>
	<u>Original</u>	<u>Final</u>		
Other Financing Sources				
Transfers in	<u>80,000</u>	<u>76,000</u>	<u>77,120</u>	<u>1,120</u>
Net change in fund balance	(503,900)	(1,348,900)	911,494	2,260,394
Fund balance - beginning	<u>4,088,576</u>	<u>4,088,576</u>	<u>4,088,576</u>	<u>-</u>
Fund balance - ending	<u>\$ 3,584,676</u>	<u>\$ 2,739,676</u>	<u>\$ 5,000,070</u>	<u>\$ 2,260,394</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)

	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
A. School district's proportion of the net pension liability (%)	0.1564%	0.1672%	0.1672%	0.1707%	0.1710%	0.1776%				
B. School district's proportionate share of the net pension liability	\$51,810,059	\$49,040,130	\$43,339,165	\$42,582,954	\$41,769,788	\$39,118,050				
C. School district's covered payroll	\$13,337,173	\$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 payroll	388.46%	360.94%	313.53%	295.53%	292.63%	256.17%				
E. Plan fiduciary net position as a percentage of total pension liability	60.31%	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 2019.

Changes of benefit assumptions: There were no changes of benefit assumptions in plan fiscal year 2019.

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,									
		2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
A.	Statutorily required contributions for the measurement period	\$ 4,192,602	\$ 3,891,921	\$ 4,470,488	\$ 2,550,323	\$ 2,686,171	\$ 3,217,031				
B.	Contributions in relation to statutorily required contributions	<u>\$ 4,192,602</u>	<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>				
C.	Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>				
D.	School district's covered payroll	\$13,281,159	\$13,357,473	\$13,621,666	\$13,547,197	\$13,884,740	\$14,537,616				
E.	Contributions as a percentage of covered payroll	31.57%	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)

	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
A. School district's proportion of the net OPEB liability (%)	0.1532%	0.1600%	0.1671%							
B. School district's proportionate share of the net OPEB liability	\$ 10,995,111	\$ 12,718,923	\$ 14,796,344							
C. School district's covered payroll	\$ 13,337,173	\$ 13,586,957	\$ 13,822,854							
D. School district's proportionate share of the net OPEB liability as a percentage of its covered payroll	82.44%	93.61%	107.04%							
E. Plan fiduciary net position as a percentage of total OPEB liability	48.46%	42.95%	36.39%							

Notes:

Changes of benefit terms: There were no changes of benefit terms in plan fiscal year 2019.

Changes of benefit assumptions: There were no changes of benefit assumptions in plan fiscal year 2019.

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,									
		2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
A.	Statutorily required contributions for the measurement period	\$ 1,042,085	\$ 1,054,244	\$ 1,006,907							
B.	Contributions in relation to statutorily required contributions	<u>\$ 1,042,085</u>	<u>\$ 1,054,244</u>	<u>\$ 1,006,907</u>							
C.	Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>							
D.	School district's covered payroll	\$ 13,281,159	\$ 13,357,473	\$ 13,621,666							
E.	Contributions as a percentage of covered payroll	7.85%	7.89%	7.39%							

OTHER SUPPLEMENTARY INFORMATION

Clio Area Schools
Other Supplementary Information
Nonmajor Governmental Funds
Combining Balance Sheet
June 30, 2020

	Special Revenue Fund		Student Activity	Capital Projects Fund	Total Nonmajor Governmental Funds
	Food Service	Transportation		Sinking Fund	
Assets					
Cash	\$ 800,751	\$ -	\$ 269,185	\$ 790,848	\$ 1,860,784
Due from other funds	1,988	-	200	305,113	307,301
Due from other governmental units	98,211	3,185	-	-	101,396
Inventory	<u>22,779</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>22,779</u>
 Total assets	 <u>\$ 923,729</u>	 <u>\$ 3,185</u>	 <u>\$ 269,385</u>	 <u>\$ 1,095,961</u>	 <u>\$ 2,292,260</u>

Clio Area Schools
Other Supplementary Information
Nonmajor Governmental Funds
Combining Balance Sheet
June 30, 2020

	Food Service	Special Revenue Fund Transportation	Student Activity	Capital Projects Fund Sinking Fund	Total Nonmajor Governmental Funds
Liabilities and Fund Balance					
Liabilities					
Accounts payable	\$ 72,287	\$ -	\$ -	\$ 13,200	\$ 85,487
Due to other funds	25,136	3,185	-	-	28,321
Unearned revenue	<u>21,825</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>21,825</u>
 Total liabilities	 <u>119,248</u>	 <u>3,185</u>	 <u>-</u>	 <u>13,200</u>	 <u>135,633</u>
Fund Balance					
Non-spendable					
Inventory	22,779	-	-	-	22,779
Restricted for					
Food service	781,702	-	-	-	781,702
Capital projects	-	-	-	1,082,761	1,082,761
Committed	<u>-</u>	<u>-</u>	<u>269,385</u>	<u>-</u>	<u>269,385</u>
 Total fund balance	 <u>804,481</u>	 <u>-</u>	 <u>269,385</u>	 <u>1,082,761</u>	 <u>2,156,627</u>
 Total liabilities and fund balance	 <u>\$ 923,729</u>	 <u>\$ 3,185</u>	 <u>\$ 269,385</u>	 <u>\$ 1,095,961</u>	 <u>\$ 2,292,260</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, 2020

	Special Revenue Fund			Capital Projects Fund	Total Nonmajor Governmental Funds
	Food Service	Transportation	Student Activity	Sinking Fund	
Revenues					
Local sources	\$ 206,910	\$ 379,137	\$ 472,985	\$ 1,063,053	\$ 2,122,085
State sources	48,466	-	-	-	48,466
Federal sources	1,335,557	-	-	-	1,335,557
Total revenues	<u>1,590,933</u>	<u>379,137</u>	<u>472,985</u>	<u>1,063,053</u>	<u>3,506,108</u>
Expenditures					
Current					
Education					
Supporting services	-	322,267	439,775	-	762,042
Food services	1,352,544	-	-	-	1,352,544
Capital outlay	-	-	-	513,711	513,711
Total expenditures	<u>1,352,544</u>	<u>322,267</u>	<u>439,775</u>	<u>513,711</u>	<u>2,628,297</u>
Excess of revenues over expenditures	238,389	56,870	33,210	549,342	877,811
Other Financing Uses					
Transfers out	<u>(20,250)</u>	<u>(56,870)</u>	-	-	<u>(77,120)</u>
Net change in fund balance	218,139	-	33,210	549,342	800,691
Fund balance - beginning, as restated	<u>586,342</u>	<u>-</u>	<u>236,175</u>	<u>533,419</u>	<u>1,355,936</u>
Fund balance - ending	<u>\$ 804,481</u>	<u>\$ -</u>	<u>\$ 269,385</u>	<u>\$ 1,082,761</u>	<u>\$ 2,156,627</u>

Clio Area Schools
Other Supplementary Information
Schedule of Outstanding Bonded Indebtedness
June 30, 2020

Year Ending June 30,	2020 Building & Site
2021	\$ 1,255,000
2022	1,660,000
2023	1,760,000
2024	660,000
2025	660,000
2026 - 2030	3,305,000
2031 - 3035	3,330,000
2036 - 2040	3,380,000
2041 - 2045	3,515,000
2046 - 2047	<u>1,430,000</u>
Total	<u>\$ 20,955,000</u>
Principal payments due the first day of	May
Interest payments due the first day of	May and November
Interest rate	2.25% - 2.63%
Original issue	<u>\$ 20,955,000</u>

Clio Area Schools

Single Audit Report

June 30, 2020



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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, 2020, and the related notes to the financial statements, which collectively comprise Clio Area Schools' basic financial statements, and have issued our report thereon dated September 3, 2020.

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
September 3, 2020



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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, 2020. 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, 2020.

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, 2020, and the related notes to the financial statements, which collectively comprise Clio Area Schools' basic financial statements. We issued our report thereon dated September 3, 2020, 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
September 3, 2020

Clio Area Schools
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2020

Federal Grantor Pass Through Grantor Program Title Grant Number	Federal CFDA Number	Award Grant Entitlement Program Amount	Inventory/ Accrued (Unearned) Revenue at July 1, 2019	Prior Year Expenditures	Current Year Expenditures	Current Year Cash Payments/ In Kind Received	Inventory/ Accrued (Unearned) Revenue at June 30, 2020
U.S. DEPARTMENT OF AGRICULTURE							
Child Nutrition Cluster							
Passed through Michigan Department of Education							
Non-Cash Assistance							
Entitlement Commodities	10.555	\$ 69,085	\$ -	\$ -	\$ 69,085	\$ 69,085	\$ -
Cash Assistance							
School Breakfast Program	10.553						
191970		230,143	6,669	196,223	33,920	40,589	-
201970		139,321	-	-	139,321	139,321	-
Total School Breakfast Program		369,464	6,669	196,223	173,241	179,910	
National School Lunch Program	10.555						
191960		615,697	14,560	527,957	87,740	102,300	-
191980		3,344	116	3,344	-	116	-
200902 - COVID-19 - Cares Act Summer Food Service Program		613,007	-	-	613,007	520,800	92,207
201960		373,247	-	-	373,247	373,247	-
201980		1,031	-	-	1,031	1,031	-
Total National School Lunch Program		1,606,326	14,676	531,301	1,075,025	997,494	92,207
Summer Food Service Program for Children	10.559						
190900		16,776	-	-	16,776	16,776	-
191900		1,430	-	-	1,430	1,430	-
Total Summer Food Service Program for Children		18,206	-	-	18,206	18,206	-
Total Cash Assistance		1,993,996	21,345	727,524	1,266,472	1,195,610	92,207
Total Child Nutrition Cluster		2,063,081	21,345	727,524	1,335,557	1,264,695	92,207
TOTAL U.S. DEPARTMENT OF AGRICULTURE		2,063,081	21,345	727,524	1,335,557	1,264,695	92,207

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

Clio Area Schools
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2020

Federal Grantor Pass Through Grantor Program Title Grant Number	Federal CFDA Number	Award Grant Entitlement Program Amount	Inventory/ Accrued (Unearned) Revenue at July 1, 2019	Prior Year Expenditures	Current Year Expenditures	Current Year Cash Payments/ In Kind Received	Inventory/ Accrued (Unearned) Revenue at June 30, 2020
U.S. DEPARTMENT OF EDUCATION							
Title I Cluster							
Passed through the Genesee Intermediate School District							
Title I - Regional Assistance Grant	84.010						
191570-1819		35,175	-	-	22,146	21,918	228
201570-1920		78,779	-	-	60,946	60,946	-
Passed through the Michigan Department of Education							
Title I, Part A - Grants to Local Educational Agencies							
191530-1819		489,102	69,048	477,111	11,991	81,039	-
201530-1920		456,286	-	-	444,294	352,105	92,189
Total Title I Cluster		<u>1,059,342</u>	<u>69,048</u>	<u>477,111</u>	<u>539,377</u>	<u>516,008</u>	<u>92,417</u>
Special Education Cluster							
Passed through the Genesee Intermediate School District							
Special Education Grants to States	84.027						
190450-1819		592,158	216,367	591,012	1,146	217,513	-
200450-1920		564,322	-	-	563,176	355,335	207,841
Total Special Education Grants to States		<u>1,156,480</u>	<u>216,367</u>	<u>591,012</u>	<u>564,322</u>	<u>572,848</u>	<u>207,841</u>
Special Education Preschool Grants	84.173						
200460-1920		22,809	-	-	22,809	22,809	-
Total Special Education Cluster		<u>1,179,289</u>	<u>216,367</u>	<u>591,012</u>	<u>587,131</u>	<u>595,657</u>	<u>207,841</u>
Passed through Genesee Intermediate School District							
Career and Technical Education - Basic Grants to States Regional Allocation (Perkins)	84.048						
203520-2012-15		14,409	-	-	14,409	14,409	-
Passed through the Michigan Department of Education							
Title III Part A English Language Acquisition State Grants	84.365						
200570-1920		430	-	-	424	424	-
Passed through the Michigan Department of Education							
Title II, Part A Supporting Effective Instruction State Grants	84.367						
190520-1819		140,184	16,194	122,712	-	16,194	-
200520-1920		107,564	-	-	97,261	82,471	14,790
Total Title II, Part A Supporting Effective Instruction State Grants		<u>247,748</u>	<u>16,194</u>	<u>122,712</u>	<u>97,261</u>	<u>98,665</u>	<u>14,790</u>

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

Clio Area Schools
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2020

Federal Grantor Pass Through Grantor Program Title Grant Number	Federal CFDA Number	Award Grant Entitlement Program Amount	Inventory/ Accrued (Unearned) Revenue at July 1, 2019	Prior Year Expenditures	Current Year Expenditures	Current Year Cash Payments/ In Kind Received	Inventory/ Accrued (Unearned) Revenue at June 30, 2020
Passed through the Michigan Department of Education Title IV Part A Student Support and Academic Enrichment Program 200750-1920	84.424	36,535	-	-	26,835	21,688	5,147
Passed through the Michigan Department of Education ESSER - Formula Grant 203710-1920	84.425	373,426	-	-	373,426	373,426	-
TOTAL U.S. DEPARTMENT OF EDUCATION		2,911,179	301,609	1,190,835	1,638,863	1,620,277	320,195
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES Medicaid Cluster Passed through Genesee Intermediate School District Medical Assistance Program Medicaid Outreach 19-20	93.778	5,974	-	-	5,974	5,974	-
TOTAL DEPARTMENT OF HEALTH AND HUMAN SERVICES		5,974	-	-	5,974	5,974	-
TOTAL FEDERAL AWARDS		\$ 4,980,234	\$ 322,954	\$ 1,918,359	\$ 2,980,394	\$ 2,890,946	\$ 412,402

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

Clio Area Schools
Notes to the Schedule of Expenditures of Federal Awards
June 30, 2020

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, 2020. 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 modified 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, 2020

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#	Cash Received per SEFA	Less Amount Disbursed in 18-19 per the GAR confirmation but received in 19-20 by the District	Cash paid per June 30, 2020 GAR
10.553	191970-1819	\$ 40,589	\$ 6,669	\$ 33,920
10.555	191960-1819	102,300	14,560	87,740
10.555	191980-1819	116	116	-

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, 2020

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? _____ Yes _____ X _____ No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? _____ Yes _____ X _____ None reported
- Noncompliance material to financial statements noted? _____ Yes _____ X _____ No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? _____ Yes _____ X _____ No
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? _____ Yes _____ 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, 2020

Identification of major programs:

CFDA Numbers

10.553/10.555/10.559

Name of Federal Program

Child Nutrition Cluster

Dollar threshold used to distinguish
between type A and type B programs:

\$ 750,000

Auditee qualified as low-risk auditee:

_____ Yes

_____ X _____ 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, 2020

Section IV - Prior Year Audit Findings

No matters were noted.



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September 3, 2020

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 aggregate remaining fund information of Clio Area Schools as of and for the year ended June 30, 2020, and have issued our report dated September 3, 2020. 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.

Our communication includes the following appendices:

- I. Auditors' Communication of Significant Matters with Those Charged with Governance
- II. Matters for Management's Consideration

Matters for management's consideration are not required to be communicated but we believe are valuable for management.

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.

This information is intended solely for the information and use of management, the Board of Education, and others within the School District, and is not intended to be, and should not be, used by anyone other than these 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 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 5, 2020. 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 the footnotes of the financial statements. The Organization has adopted the following Governmental Accounting Standards Board Statements effective July 1, 2019:

- 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: (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.
- 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.
- Statement No. 92, *Omnibus 2020* enhances comparability in accounting and financial reporting and improves the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics and includes specific provisions about the following: (1) The effective date of Statement No. 87, Leases, and Implementation Guide No. 2019-3, Leases, for interim financial reports (2) Reporting of intra-entity transfers of assets between a primary government employer and a component unit defined benefit pension plan or defined benefit other postemployment benefit (OPEB) plan. (3) The applicability of Statements No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68, as amended, and No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, as amended, to reporting assets accumulated for postemployment benefits. (4) The applicability of certain requirements of Statement No. 84, Fiduciary Activities, to postemployment benefit arrangements. (5) Measurement of liabilities (and assets, if any) related to asset retirement obligations (AROs) in a government acquisition. (6) Reporting by public entity risk pools for amounts that are recoverable from reinsurers or excess insurers. (7) Reference to nonrecurring fair value measurements of assets or liabilities in authoritative literature. (8) Terminology used to refer to derivative instruments.
- Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance* provides a temporary relief to governments and other stakeholders in light of the COVID-19 pandemic and provides a postponement of certain GASB Statements.

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.

The financial statement disclosures are neutral, consistent, and clear.

Accounting Standards and Regulatory Updates

Accounting Standards

The Governmental Accounting Standards Board has released additional Statements. Details regarding these Statements are described in Note 1 of the financial statements.

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

Regulatory and Other Updates

FER Extended Time Notification

The 2019-20 Final Expenditure Report (FER) due date is November 29, 2020. This report should reconcile to the Single Audit Report and the LEA's financial records. LEAs should verify that the figures on the report are a true and accurate representation of expenditures for each project. LEAs experiencing extenuating circumstances will be allowed to request additional time for submission prior to November 21, 2020, to the Office of Educational Supports Financial Unit at QFSFinancial-Unit@michigan.gov. Extension time is available if needed, but will not exceed December 31, 2020. Your timely submission of these reports helps ensure carryover funds are available for program implementation for the current school year.

District Guide to School-Level Expenditure Reporting Under the Every Student Succeeds Act (ESSA)

The federal Every Student Succeeds Act (ESSA) contains a new requirement that all local public school districts (local education agencies and public school academies) publish actual per-pupil expenditures by individual school building. MDE has recently published a District Guide to School-Level Expenditure Reporting under the Every Student Succeeds Act to assist districts in communication planning around this data that will be posted on the Michigan School Data website no later than June 30, 2020. This guide is intended to support district-level personnel communicating with principals, educators, community members, and media on the reporting requirement and school-level spending information. Districts are encouraged to continue to scrutinize reporting results at the building level and use building codes when applicable to properly allocate expenses to avoid future questions resulting from this data being available to the public.

Financial Accounting Guidance During the COVID-19 Pandemic

Michigan Department of Education (MDE) has issued guidance about financial accounting for transactions related to the COVID19 pandemic, school closures, and implementation of a Continuity of Learning and COVID19 Response Plan. This guidance is updated regularly and can be found using this link:

[https://www.michigan.gov/documents/mde/COVID-19 Accounting Guidance 691616 7.pdf](https://www.michigan.gov/documents/mde/COVID-19_Accounting_Guidance_691616_7.pdf)

FID Changes for 2020 and Beyond

Expenditure object code requirements submitted through the FID will be changing. The system currently allows for two-digit detail. This is being changed to require three digits. The 2019-20 submission will generate warnings for data that doesn't comply with the three-digit detail. Take note of the warnings in order to correct them prior to the 2020-21 submission. If the data is not in compliance for the 2021 submission, error codes will be generated. The goal of this change is to potentially reduce or streamline other program specific reporting. There will also be a new error check to ensure that any buildings that have an enrollment greater than zero should have expenditures reported.

ESSER and CARES Act Accounting

As LEAs are recognizing Elementary and Secondary School Emergency Relief (ESSER) fund in revenues and expenditures, a new account code should be used. The new major class code of 414 should be used with a suffix of 0250. Expenditures should be reported under the new grant code 796. Most function codes are allowable, but the grant guidance should be referred to when determining the allowable uses of funds. MDE's guidance on what the funds can be used for can be found in the guidance memo located at [https://www.michigan.gov/documents/mde/ESSER guidance 688430 7.pdf](https://www.michigan.gov/documents/mde/ESSER_guidance_688430_7.pdf)

Summer Food Service Program

The school year ended with many LEAs experiencing changes to their food service distribution programs. With those changes in mind, we would like to encourage districts to make sure they have all the documentation in place to have successful administrative reviews. All new SFSP sponsors will be subject to a review. The focus of the administrative reviews will be on menus, production records, daily meal count sheets, and monthly claims. Keep in mind that the Unanticipated School Closure Summer Food Service Program meals ended June 30, 2020. Subsequent to this date, claims will be related to the Summer Food Service Program.

Special Education Compliance Information

The excess cost requirement testing is being implemented for 2019-20 as a pilot test. This will be completed in fall of 2020. Due to the test being in the pilot phase, any districts that do not meet the requirement will be made aware for informational purposes only, and a formal violation will not be triggered at this time.

Maintenance of Effort includes a test for compliance and a test for eligibility. The compliance testing piece went live on March 17, 2020 for the 2018-19 period, it is anticipated that all 56 ISDs will meet compliance under at least one of the four methods to calculate. The 2020-21 eligibility testing went live on June 1, 2020. These tests are being conducted at the ISD level. It is important for all LEAs to verify they are submitting accurate information to the ISD in order to have accurate data in these calculations.

Starting in fiscal year 2021, the IDEA Flowthrough and Preschool funds will move from a 27-month grant application to 15-month grant application period. Any unspent funds will be carried over to the next grant award. Additionally, there will be no IFRs starting in fiscal year 2021. Final expenditure reports will be done in CMS and final district level expenditure reports will be done in MEGS+. Starting with fiscal year 2022, grant applications will be done in NexSys, the new grants management system. It will contain both grant applications and payments.

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, and communicate them to the appropriate level of management. There were no known misstatements detected as a result of audit procedures that were more than trivial.

There were no known 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 such 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.

Emphasis of Matters in Independent Auditors' Report

Our report will include the following emphasis of matter paragraph:

Adoption of New Accounting Standards

As described in Note 1 to the financial statements, during the year ended June 30, 2020, the School District adopted GASB Statement no. 84, Fiduciary Activities. Our opinions are not modified with respect to this matter.

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. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

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, 2020, we considered the School District's 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 School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the School District's 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 September 3, 2020, 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 10 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, 8 of the 10 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.

Net Cash Resources

As a result of the COVID-19 pandemic and flexibilities awarded related to eligibility and food distribution, meal claim revenues were in excess of anticipated amounts. Additionally, as a result of the required school closure, expenditures did not increase at the same rate as revenues, resulting in fund balance being added to in a short period of time. Additionally, the District did not have an opportunity to follow the plan that was established as a result of the prior year noncompliance. This resulted in the net cash resources to continue to be in excess of the three-month average expenditure requirement included in the federal regulations. At this time, neither MDE nor USDA has issued a waiver for this compliance requirement, but a one year waiver has been issued in order to follow the spend down plan. The noncompliance has not been determined to be material to the federal program or the financial statements. In order to resolve the noncompliance, Districts may reduce lunch prices in a manner that is consistent with the paid lunch equity provisions, improve food quality, or take other action designed to improve the program. We recommend that Districts look at possible enhancements to the program in order to develop a spend down plan to return to compliance with this requirement.