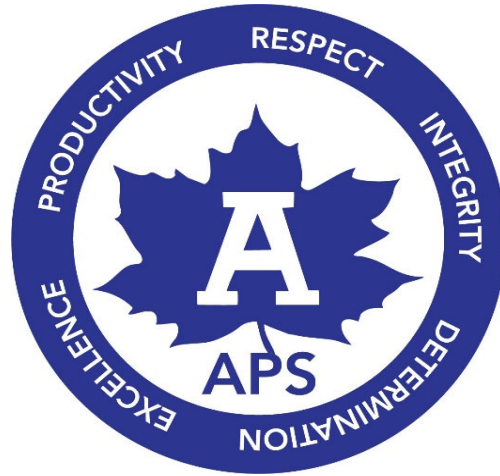


Adrian Public
Schools



Year Ended
June 30, 2023

Financial
Statements and
Single Audit Act
Compliance

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ADRIAN PUBLIC SCHOOLS

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INDEPENDENT AUDITORS' REPORT

October 18, 2023

Board of Education
Adrian Public Schools
Adrian, Michigan

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of **Adrian Public Schools** (the "District"), as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the District, as of June 30, 2023, and the respective changes in financial position, and, where applicable, cash flows thereof and the budgetary comparison of the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Independent Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.



In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Independent Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- obtain an understanding of internal control relevant to the audit 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 District's internal control. Accordingly, no such opinion is expressed.
- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and the schedules for the pension and other postemployment benefit plan, as listed in the table of contents, be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The combining fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and were derived from and relate 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 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 combining fund financial statements are 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 October 18, 2023, on our consideration of the District's 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 the District's internal control over financial reporting and compliance.

The image shows a handwritten signature in black ink that reads "Lehmann Johnson LLC". The signature is written in a cursive, flowing style.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

ADRIAN PUBLIC SCHOOLS

Management's Discussion and Analysis

As management of Adrian Public Schools (the "District"), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2023.

Financial Highlights

• Total net position	\$ (43,613,170)
• Change in total net position	6,852,247
• Fund balances, governmental funds	12,492,731
• Change in fund balances, governmental funds	(723,743)
• Unassigned fund balance, general fund	7,465,238
• Change in fund balance, general fund	114,209
• General obligation bonds outstanding	48,340,000
• Change in general obligation bonds	(2,225,000)
• Capital assets, net	53,122,372

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements. The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all of the District's assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the residual reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *statement of activities* presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing* of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused compensated leave).

Both of the government-wide financial statements distinguish functions of the District that are principally supported by taxes and intergovernmental revenues (*governmental activities*). The governmental activities of the District include instruction, supporting services, food service, athletics, community services, facilities acquisition, construction, and improvements, and student service activity.

Fund Financial Statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into two categories: governmental funds and proprietary funds.

Governmental Funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

ADRIAN PUBLIC SCHOOLS

Management's Discussion and Analysis

Proprietary Funds. The District maintains two types of proprietary funds. The District uses the catering fund to track activity that is business like in nature. Catering by the food service employees is done with the intention of earning a profit at the end of the year. The District uses an unemployment internal service fund to hold and disburse unemployment expenses. The fund captures a percentage on all salaries in all funds to assist in making the potential unemployment liability as minimal as possible.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found following the fund financial statement section of this report.

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information. This is limited to this management's discussion and analysis and the schedules for the MPSERS pension and other postemployment benefit plans immediately following the notes to the financial statements. The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the required supplementary information.

Fund Accounting Format

Districts use fund accounting instead of the traditional accounting method used by most private businesses. The reason schools and other governmental organizations use the fund accounting method is that they receive their money from taxes, governmental agencies, grants, sale of bonds, contributions and donations, all of which require that the money be used for the specific purpose for which it is being provided. Each fund becomes a different entity. For example, the operations fund of the District receives the majority of money from the State; the rest comes from local taxes, the federal government, transfers from other governmental units and some donations. All of this money must be used for the operation of the District only. The capital projects fund must use money raised through the sale of bonds for building facilities and development of property only. The debt fund must use money which comes from taxes to pay for bonds that were sold to build/remodel facilities and develop property. Another common fund in a District is the food service fund.

The above is somewhat simplified to make a point because there are local, state and federal laws statutes, and regulations that come with the establishment of each fund.

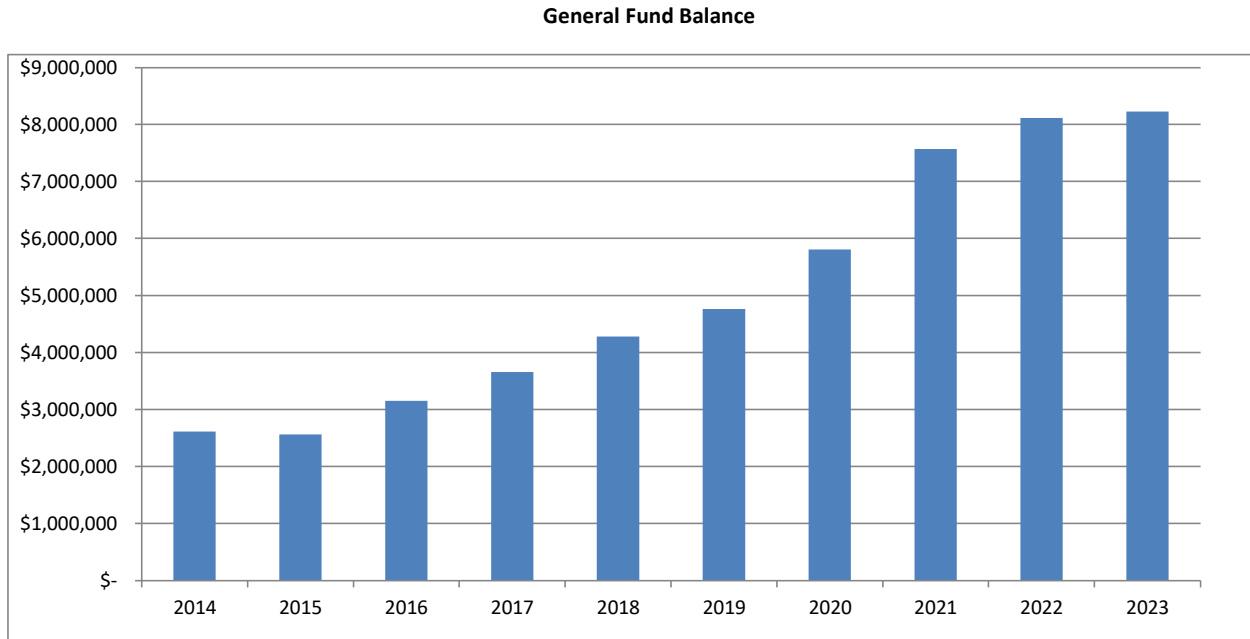
Fund Balance for the General Fund

The worth or the measurement of a District's financial health is based on the District's fund balance. The District implemented numerous cost saving measures in recent years showing a fund balance in the general fund of \$8,114,700 in 2022. In 2023, the fund balance increased to \$8,228,909.

ADRIAN PUBLIC SCHOOLS

Management's Discussion and Analysis

The following chart provides a ten year comparison of the District's General Fund fund balance.



Government-wide Statements

The District is required to report its proportionate share of the MPSERS net pension liability and net other postemployment benefits liability on the statement of net position. This results in a negative total net position of governmental activities of \$43,671,971. Of this amount, \$(44,668,008) is unrestricted net position (deficit) and \$1,507,189 represents resources that are subject to external restrictions on how they may be used. The operating results of the general fund will have a significant impact on the change in unrestricted net position from year to year.

A portion of the District's net position, \$(511,152), reflects its investment in capital assets net of related debt (e.g., land, buildings and improvements, machinery and equipment, and vehicles, less any related debt used to acquire those assets that is still outstanding). The District uses these capital assets to provide services to the students it serves; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The Statement of Activities presented in these financial Statements provides greater detail on the District's annual activity. The District also reports an internal service fund to account for unemployment, which is a governmental activity. This fund is shown separately in the Financial Statements.

ADRIAN PUBLIC SCHOOLS

Management's Discussion and Analysis

The differences between governmental activities as reported in the Statement of Net Position and the governmental funds is reconciled on a separate page following the fund level balance sheet. Another reconciliation following the Statement of Revenues, Expenditures and Changes in Fund Balances explains the difference between Net Change in Fund Balances represented in the total column of governmental funds of \$(723,743) and the Change in Net Position of \$6,845,951.

	Net Position					
	Governmental Activities		Business-type Activities		Total	
	2023	2022	2023	2022	2023	2022
Assets						
Current and other assets	\$ 18,016,858	\$ 17,193,797	\$ 58,801	\$ 52,505	\$ 18,075,659	\$ 17,246,302
Capital assets, net	53,122,372	50,777,716	-	-	53,122,372	50,777,716
Total assets	71,139,230	67,971,513	58,801	52,505	71,198,031	68,024,018
Deferred outflows of resources						
	28,802,438	14,105,560	-	-	28,802,438	14,105,560
Liabilities						
Long-term liabilities	128,259,379	102,740,013	-	-	128,259,379	102,740,013
Other liabilities	5,896,690	4,373,260	-	-	5,896,690	4,373,260
Total liabilities	134,156,069	107,113,273	-	-	134,156,069	107,113,273
Deferred inflows of resources						
	9,457,570	25,481,722	-	-	9,457,570	25,481,722
Net position						
Net investment in capital assets	(511,152)	(4,076,639)	-	-	(511,152)	(4,076,639)
Restricted	1,507,189	1,561,660	-	-	1,507,189	1,561,660
Unrestricted (deficit)	(44,668,008)	(48,002,943)	58,801	52,505	(44,609,207)	(47,950,438)
Total net position	\$ (43,671,971)	\$ (50,517,922)	\$ 58,801	\$ 52,505	\$ (43,613,170)	\$ (50,465,417)

ADRIAN PUBLIC SCHOOLS

Management's Discussion and Analysis

	Change in Net Position					
	Governmental Activities		Business-type Activities		Total	
	2023	2022	2023	2022	2023	2022
Program revenues:						
Charges for services	\$ 2,510,617	\$ 2,609,866	\$ 18,689	\$ 14,743	\$ 2,529,306	\$ 2,624,609
Operating grants and contributions	21,552,691	16,921,036	-	-	21,552,691	16,921,036
General revenues:						
Property taxes	8,806,011	8,940,902	-	-	8,806,011	8,940,902
Grants and contributions not restricted for specific purposes	20,611,119	18,880,161	-	-	20,611,119	18,880,161
Unrestricted interest and investment earnings	108,593	8,408	1,715	134	110,308	8,542
Gain on sale of capital assets	-	5,861	-	-	-	5,861
Other	307,845	101,214	-	-	307,845	101,214
	<u>53,896,876</u>	<u>47,467,448</u>	<u>20,404</u>	<u>14,877</u>	<u>53,917,280</u>	<u>47,482,325</u>
Expenses:						
Instruction	23,708,629	19,517,937	-	-	23,708,629	19,517,937
Supporting services	14,166,204	12,382,435	-	-	14,166,204	12,382,435
Food service	2,116,133	1,673,255	-	-	2,116,133	1,673,255
Athletics	1,046,976	915,553	-	-	1,046,976	915,553
Community services	278,684	287,261	-	-	278,684	287,261
Facilities acquisition, construction, and improvements	102,728	10,202	-	-	102,728	10,202
Student service activity	412,477	311,567	-	-	412,477	311,567
Interest on long-term liabilities	2,197,096	2,274,424	-	-	2,197,096	2,274,424
Other	208,981	121,750	-	-	208,981	121,750
Unallocated depreciation/amortization	2,813,017	2,467,070	-	-	2,813,017	2,467,070
Catering	-	-	14,108	13,113	14,108	13,113
Total expenses	<u>47,050,925</u>	<u>39,961,454</u>	<u>14,108</u>	<u>13,113</u>	<u>47,065,033</u>	<u>39,974,567</u>
Change in net position	6,845,951	7,505,994	6,296	1,764	6,852,247	7,507,758
Net position:						
Beginning of year	<u>(50,517,922)</u>	<u>(58,023,916)</u>	<u>52,505</u>	<u>50,741</u>	<u>(50,465,417)</u>	<u>(57,973,175)</u>
End of year	<u>\$ (43,671,971)</u>	<u>\$ (50,517,922)</u>	<u>\$ 58,801</u>	<u>\$ 52,505</u>	<u>\$ (43,613,170)</u>	<u>\$ (50,465,417)</u>

ADRIAN PUBLIC SCHOOLS

Management's Discussion and Analysis

Financial Analysis

Governmental Activities

Net position increased \$6,845,951, compared to a \$7,505,994 increase in the prior year. The increase in revenues, specifically operating grants and contributions, is primarily due to the increase in the per pupil foundation allowance, the MPSERS one-time deposit for retirement stabilization, and additional state categorical grants. The overall change in expenses is primarily related to changes in the state and federal grant award allocations (ESSER II & III and Section 97 Safety Grant).

Business-type Activities

Net position increased by \$6,296, compared to a \$1,764 increase in the prior year. This is primarily due to an increase in catering during the current fiscal year.

Fund Balance

Fund balance is an accounting concept reflecting the current financial resources measurement focus (modified accrual basis of accounting). On June 30, 2023, the District's general fund fund balance was \$8,228,909, increasing by \$114,209 from the prior year. The increase is related to a \$6.2 million increase in revenue from the prior year to the current year, largely comprised of a \$4.78 million increase in state revenue. This increase in revenue was offset by a \$6.6 million increase in expenditures due to increased rates and various new grants in the current year.

Capital Projects and Technology Fund. Fund balance for this fund was \$2,003,240, increasing by \$312,101 from the prior year. The increase is related to additional funding for upcoming projects.

Assets

Total assets in the general fund are \$13,667,487, as shown in the Governmental Funds Balance Sheet. Investments made on behalf of the District are in accordance with restrictions imposed by State law. Cash in non-interest bearing accounts is kept at a minimum, with funds in excess of that needed to cover outstanding checks moved to an investment pool account designed specifically for Districts.

Revenues

Since the enactment of Proposal A in 1994, the State of Michigan is the primary source of funds for the District (see the following chart). The State of Michigan provides schools with a foundation grant per student which is used for overall operations of the District. For 2022-2023, the District received \$9,150 per student. The State also provides other grants or categorical dollars that are to be used for specific purposes. These types of allocations are provided as stated amounts of money instead of on a per student basis. The total revenues from the State are shown in the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances.

Local taxes for residential homes in the District were reduced by approximately 80% when Proposal A was enacted. Property taxes collected for residential home owners are transferred directly to the State while non residential property owners' education related taxes are transferred to the District. The total local taxes collected for 2022-2023 are shown in the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances.

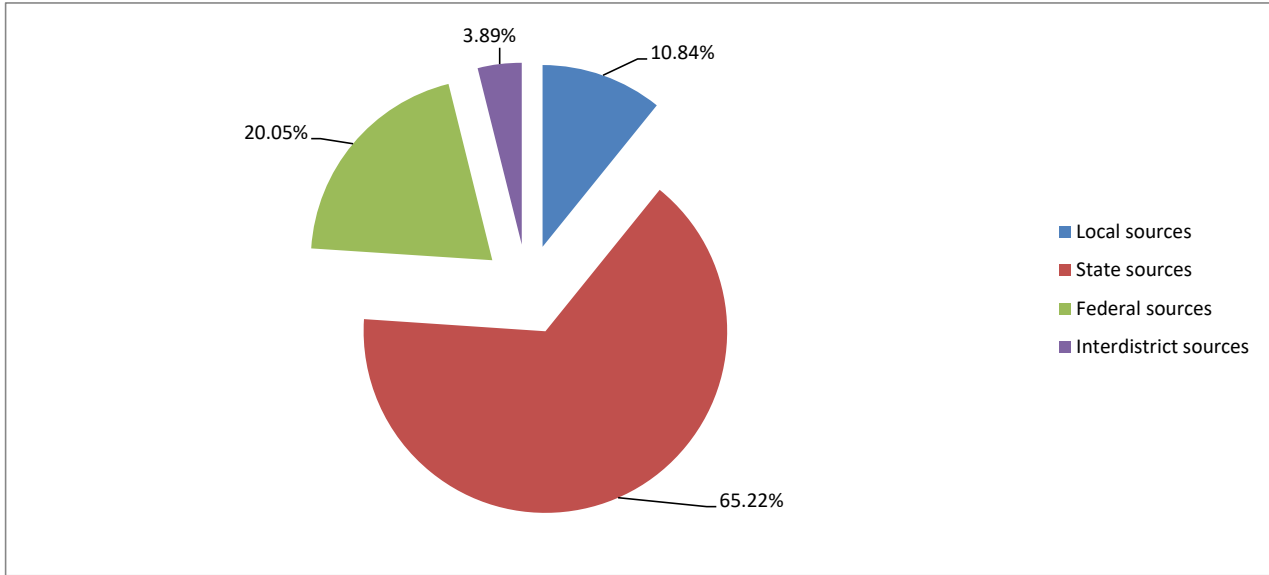
Federal funds are dedicated to specific program purposes. Federal dollars are reported in the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances.

ADRIAN PUBLIC SCHOOLS

Management's Discussion and Analysis

The District revenues mentioned above are the three main sources of revenue as indicated on the following chart. General fund revenues are also illustrated in the following chart.

Sources of Funds - General Fund



Foundation Grant/State Aid

A major determinant of the amount of State foundation grant money received from the State is the student enrollment. Foundation grant amounts are based on a "blended count" of students. Districts have two student count days, one is in October of the current fiscal year and the other is in February. The computation is based on 90% of the current year October count, and 10% weight for the prior fiscal year February count. The blended enrollment for 2022-2023 was 2,756. Projections for 2023-2024 are estimated at 2,715. Students have the right to attend a school of their choice within the District subject to the availability of space in the classrooms. They can also apply to a different District, and, if accepted, can attend school in that district. For the October 2022 student count, 1,590 students left the District by school of choice.

ADRIAN PUBLIC SCHOOLS

Management's Discussion and Analysis

Special Education Funding

Special Education funding consists of the foundation grant per student, a categorical amount of \$844,611 in 2023, Medicaid payments for “fee for service” and distributions from the Lenawee Intermediate School District (LISD) from a special levy collected by the LISD for special education authorized by Act 18 of 1954. The total Special Education funding fell short of the total Special Education direct expenditures in 2022-2023. See table below. The expenditures in the Special Education programs are difficult to control, given the requirements for outreach and for identification of students with special needs, class size, and teacher case load under the Federal Individuals with Disabilities Education Act (IDEA) and the State mandates that flow from that federal act.

The District cooperates with LISD for the more intensive Special Education services, including the Laura Haviland program for the severely emotionally impaired.

	2015-16	2016-17	2017-18	2018-19
Special Education Foundation grant	\$ 787,412	\$ 791,909	\$ 759,239	\$ 756,908
State categorical	194,556	201,854	201,429	193,098
LISD Act 18 funds	1,379,555	1,272,550	1,378,066	1,336,318
Medicaid FFS/Outreach	47,220	55,260	91,318	96,041
Total reimbursements	2,408,743	2,321,573	2,430,052	2,382,365
Total Special Education costs	2,671,361	2,681,006	2,539,055	2,661,384
Unreimbursed costs	\$ (262,618)	\$ (359,433)	\$ (109,003)	\$ (279,019)
Percentage reimbursement	90.2%	86.6%	95.7%	89.5%
	2019-20	2020-21	2021-22	2022-23
Special Education Foundation grant	\$ 797,150	\$ 769,458	\$ 720,273	\$ 789,188
State categorical	202,062	210,699	210,700	844,611
LISD Act 18 funds	1,589,099	1,614,342	1,763,181	1,595,284
Medicaid FFS/Outreach	99,123	88,486	73,546	90,882
Total reimbursements	2,687,434	2,682,985	2,767,700	3,319,965
Total Special Education costs	2,823,624	2,850,190	3,267,685	3,723,082
Unreimbursed costs	\$ (136,190)	\$ (167,205)	\$ (499,985)	\$ (403,117)
Percentage reimbursement	95.2%	94.1%	84.7%	89.2%

Expenses

Salaries and Benefits

Compensation of employees in the form of salaries and benefits are a significant portion of the District’s expenses (approximately 75%). The District is challenged in keeping its employees’ salaries competitive with neighboring Districts which have higher foundation allowances per pupil or which are not experiencing declines in student enrollment. Health insurance costs to the District have slowed as the employees are picking up more of the costs. During the 2012-2013 school year, the State mandated a hard cap for health insurance and all employees pay the costs above the hard cap. Contribution rates to the Michigan Public School Employees’ Retirement System (MPERS) for fiscal years 2023 and 2022 ranged from 20.96% - 28.23%.

ADRIAN PUBLIC SCHOOLS

Management's Discussion and Analysis

Budget Factors

Public Act 621 commonly known as the "The Uniform Budget Act of the State of Michigan" requires that the local board of education approve an operating budget by July 1st of each year. The budget is based on the best available information at that time. As a matter of practice, however, the District amends its budget during the school year, usually in December or January. In fact, all Michigan School Districts must complete a second full budget after the State's official student membership count date because only then do they know their Foundation grant's income level and other significant factors, such as staffing. These revisions are made in order to deal with unexpected changes in revenues and expenditures.

Each year's expenditure plan includes restricted funds "carried over" from the past year in various state or federal grants. Because the amount of these carryovers cannot be reasonably estimated at the time the original budget for the year is prepared in June, these amounts are added to the revised budgets adopted at mid-year and at the end of the year.

The resolution adopting the budget specifies that whenever the District becomes aware of issues that will affect the budget by \$50,000, either positively or negatively, the budget must be amended to reflect that change.

In comparing original budget, final budget, and actual figures for the year in the general fund, budgeted revenues from federal and state sources were not used in total, causing \$1,150,356 and \$1,009,073, respectively, to be carried over to the next school year.

General Fund Budgetary Highlights

The original budget as compared to the final amended budget was changed primarily due to State and federal revenues. Once these sources were known, subsequent budget amendments recognized additional revenue and the related expenditure needs were adjusted accordingly.

Final budgeted revenues exceeded original budgeted amounts by \$4,849,451. State revenue increased by \$5,589,903 due to new state grants that became available during the 2022-2023 school year, as well as a higher than expected per pupil foundation allowance. Federal revenue decreased by \$1,406,344 due to adjustments for changes in expenditures incurred under various federal grants.

Final budgeted expenditures exceeded original budgeted amounts by \$4,340,848, largely due to the timing of grants and vendors abilities to supply prior to year end.

Actual revenues and expenditures were less than final budgeted amounts by \$2,533,229 and \$2,560,552, respectively. This is largely due to the underutilization of budgeted amounts due to staff vacancies, the reduction of online student participation, the timing of grants, and ability of vendors to provide services in a timely fashion.

Actual results were less than expected and the ending fund balance was less than the anticipated final amended budget amounts by \$89,087, as compared with the prior year difference of \$280,374.

Capital Assets and Debt Administration

The District had capital assets of \$53,122,372, which was comprised of \$89,195,222 invested in assets, less accumulated depreciation/amortization of \$36,072,850. Significant additions included HVAC upgrades. Refer to footnote 5 for additional information regarding capital assets.

At the fiscal year ending June 30, 2023, the District's long-term debt obligations included \$334,234 in compensated absences including accrued vacation and sick pay leave, \$461,125 of early retirement incentives, \$172,079 in leases payable, \$23,045,000 from the 2016 bond project, \$3,394,233 of bond premiums from the 2016 bonds, \$25,295,000 of refunded building and site bonds from the 2017 refunding of the 2007 refunding of the 2004 building and site bonds, and \$3,041,185 of bond premiums from the 2017 refunding bonds. More detail is presented in Note 8 in the Notes to Financial Statements.

ADRIAN PUBLIC SCHOOLS

Management's Discussion and Analysis

Proprietary Fund

During the 2007-2008 fiscal year, a portion of the food service fund was branched off to a new fund, the catering fund. This fund is used to track activity that is business-like in nature. Catering by the food service employees is done with the intention of earning a profit at the end of the year. This type of activity is more like the business sector, therefore, it is classified as a Proprietary Fund. Net position at the end of the year was \$58,801, which was an increase of \$6,296 compared to the prior year.

Internal Service Fund

During 2010-11, an unemployment internal service fund was established. This fund was set up to hold and disburse unemployment expenses. The fund captures, on an as needed basis, a percentage of salaries in all funds to assist in making the potential unemployment liability as minimal as possible. Over the last several years, the District has not had significant unemployment and as such, has not been capturing any salary amounts. The District plans to continue to monitor this fund and replenish, via salary captures, as needed.

Economic Factors

Future revenues of the District are uncertain due to the economy in the State of Michigan.

The budget for the year ended June 30, 2024 was adopted in June 2023 when there was a high degree of uncertainty related to the funding and operations for districts in the State of Michigan. The State Foundation Allowance was unknown at the time of the Budget Hearing and has been determined to be higher than the adopted budget. Despite this, there continues to be a high degree of uncertainty regarding potential changes to state and federal funding. These factors will have a significant impact on the operational and financial performance of the District.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional information, please contact:

Daniel Peña, Business Manager
Adrian Public Schools
785 Riverside Avenue, Suite 1
Adrian, MI 49221
517-264-6647
dppena@adrian.k12.mi.us

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BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

ADRIAN PUBLIC SCHOOLS

Statement of Net Position

June 30, 2023

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 9,278,275	\$ 55,427	\$ 9,333,702
Investments	886,349	-	886,349
Receivables	7,433,311	3,029	7,436,340
Other assets	418,923	345	419,268
Capital assets not being depreciated/amortized	11,000	-	11,000
Capital assets being depreciated/amortized, net	53,111,372	-	53,111,372
Total assets	71,139,230	58,801	71,198,031
Deferred outflows of resources			
Deferred charge on advance bond refunding	1,313,973	-	1,313,973
Deferred pension amounts	22,059,847	-	22,059,847
Deferred other postemployment benefit amounts	5,428,618	-	5,428,618
Total deferred outflows of resources	28,802,438	-	28,802,438
Liabilities			
Accounts payable and accrued liabilities	4,590,039	-	4,590,039
Unearned revenue	1,306,651	-	1,306,651
Bonds, notes, and other long-term liabilities:			
Due within one year	3,176,143	-	3,176,143
Due in more than one year	52,566,713	-	52,566,713
Net pension liability (due in more than one year)	68,589,180	-	68,589,180
Net other postemployment benefits liability (due in more than one year)	3,927,343	-	3,927,343
Total liabilities	134,156,069	-	134,156,069
Deferred inflows of resources			
Deferred pension amounts	1,189,121	-	1,189,121
Deferred other postemployment benefit amounts	8,268,449	-	8,268,449
Total deferred inflows of resources	9,457,570	-	9,457,570
Net position			
Net investment in capital assets	(511,152)	-	(511,152)
Restricted for food service	1,082,724	-	1,082,724
Restricted for student scholarships	24,218	-	24,218
Restricted for debt service	400,247	-	400,247
Unrestricted (deficit)	(44,668,008)	58,801	(44,609,207)
Total net position	\$ (43,671,971)	\$ 58,801	\$ (43,613,170)

The accompanying notes are an integral part of these financial statements.

ADRIAN PUBLIC SCHOOLS

Statement of Activities

For the Year Ended June 30, 2023

Functions / Programs	Expenses	Program Revenues		Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	
Governmental activities				
Instruction	\$ 23,708,629	\$ -	\$ 19,206,082	\$ (4,502,547)
Supporting services	14,166,204	2,371,155	139,430	(11,655,619)
Food service	2,116,133	48,477	2,207,179	139,523
Athletics	1,046,976	90,985	-	(955,991)
Community services	278,684	-	-	(278,684)
Facilities acquisition, construction, and improvements	102,728	-	-	(102,728)
Student service activity	412,477	-	-	(412,477)
Interest on long-term liabilities	2,197,096	-	-	(2,197,096)
Other	208,981	-	-	(208,981)
Unallocated depreciation/amortization	2,813,017	-	-	(2,813,017)
Total governmental activities	47,050,925	2,510,617	21,552,691	(22,987,617)
Business-type activities				
Catering	14,108	18,689	-	4,581
Total	\$ 47,065,033	\$ 2,529,306	\$ 21,552,691	\$ (22,983,036)

continued...

ADRIAN PUBLIC SCHOOLS

Statement of Activities

For the Year Ended June 30, 2023

	Governmental Activities	Business-type Activities	Total
Changes in net position			
Net (expense) revenue	\$ (22,987,617)	\$ 4,581	\$ (22,983,036)
General revenues:			
Property taxes levied for general purposes	4,413,992	-	4,413,992
Property taxes levied for debt service	4,392,019	-	4,392,019
Grants and contributions not restricted for specific purposes	20,611,119	-	20,611,119
Unrestricted interest and investment earnings	108,593	1,715	110,308
Other	307,845	-	307,845
Total general revenues	29,833,568	1,715	29,835,283
Change in net position	6,845,951	6,296	6,852,247
Net position, beginning of year	(50,517,922)	52,505	(50,465,417)
Net position, end of year	\$ (43,671,971)	\$ 58,801	\$ (43,613,170)

concluded.

The accompanying notes are an integral part of these financial statements.

ADRIAN PUBLIC SCHOOLS

Balance Sheet

Governmental Funds

June 30, 2023

	General	Capital Projects and Technology	Nonmajor Governmental Funds	Total Governmental Funds
Assets				
Cash and cash equivalents	\$ 5,336,225	\$ 2,033,276	\$ 1,880,080	\$ 9,249,581
Investments	564,170	-	322,179	886,349
Accounts receivable	156,319	-	-	156,319
Due from other governments	7,196,351	-	79,065	7,275,416
Due from other funds	460	-	-	460
Inventory	-	-	4,961	4,961
Prepays	413,962	-	-	413,962
Total assets	\$ 13,667,487	\$ 2,033,276	\$ 2,286,285	\$ 17,987,048
Liabilities				
Accounts payable	\$ 159,978	\$ 30,036	\$ 4,972	\$ 194,986
Accrued payroll	2,563,035	-	6,669	2,569,704
Other liabilities	1,408,914	-	13,602	1,422,516
Due to other funds	-	-	460	460
Unearned revenue	1,306,651	-	-	1,306,651
Total liabilities	5,438,578	30,036	25,703	5,494,317
Fund balances				
Nonspendable:				
Inventory	-	-	4,961	4,961
Prepays	413,962	-	-	413,962
Restricted:				
Food service	-	-	1,077,763	1,077,763
Student scholarships	-	-	24,218	24,218
Debt service	-	-	803,080	803,080
Committed:				
Community service	-	-	14,708	14,708
Student service activities	-	-	335,852	335,852
Assigned:				
Sick leave	324,607	-	-	324,607
Retiree health and early retirement incentive	25,102	-	-	25,102
Capital projects	-	2,003,240	-	2,003,240
Unassigned	7,465,238	-	-	7,465,238
Total fund balances	8,228,909	2,003,240	2,260,582	12,492,731
Total liabilities and fund balances	\$ 13,667,487	\$ 2,033,276	\$ 2,286,285	\$ 17,987,048

The accompanying notes are an integral part of these financial statements.

ADRIAN PUBLIC SCHOOLS

Reconciliation

Fund Balances of Governmental Funds
to Net Position of Governmental Activities
June 30, 2023

Fund balances - total governmental funds	\$ 12,492,731
Amounts reported for <i>governmental activities</i> in the statement of net position are 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/amortized	11,000
Capital assets being depreciated/amortized, net	53,111,372
Internal service funds are used by management to charge the costs of certain activities, such as insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net position.	
Net position of governmental activities accounted for in the internal service fund	30,270
Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	
Bonds, notes, and other long-term liabilities	(49,307,438)
Premium on bonds payable	(6,435,418)
Accrued interest on bonds, notes, and other long-term liabilities	(402,833)
Deferred charge on advance bond refunding	1,313,973
Certain pension and other postemployment benefit-related amounts, such as the net pension liability, the net other postemployment benefit liability, and deferred amounts, are not due and payable in the current period or do not represent current financial resources and therefore are not reported in the funds.	
Net pension liability	(68,589,180)
Deferred outflows related to the net pension liability	22,059,847
Deferred inflows related to the net pension liability	(1,189,121)
Net other postemployment benefit liability	(3,927,343)
Deferred outflows related to the net other postemployment benefit liability	5,428,618
Deferred inflows related to the net other postemployment benefit liability	<u>(8,268,449)</u>
Net position of governmental activities	<u>\$ (43,671,971)</u>

The accompanying notes are an integral part of these financial statements.

ADRIAN PUBLIC SCHOOLS

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Funds

For the Year Ended June 30, 2023

	General	Capital Projects and Technology	Nonmajor Governmental Funds	Total Governmental Funds
Revenues				
Local sources	\$ 5,021,951	\$ 85,438	\$ 5,038,973	\$ 10,146,362
State sources	30,228,098	-	300,739	30,528,837
Federal sources	9,294,649	-	2,122,672	11,417,321
Interdistrict sources	1,804,356	-	-	1,804,356
Total revenues	46,349,054	85,438	7,462,384	53,896,876
Expenditures				
Current:				
Instruction	25,668,009	-	-	25,668,009
Supporting services	14,951,474	-	12,001	14,963,475
Food service	-	-	2,189,949	2,189,949
Athletics	1,116,496	-	-	1,116,496
Community services	284,303	-	10,160	294,463
Facilities acquisition, construction, and improvements	102,728	-	-	102,728
Payments to other governments	134,400	-	-	134,400
Student service activity	-	-	412,477	412,477
Other	-	180,927	28,054	208,981
Debt service:				
Principal	17,197	-	2,225,000	2,242,197
Interest and fiscal charges	2,732	-	2,514,684	2,517,416
Capital outlay	3,380,372	462,410	1,116,522	4,959,304
Total expenditures	45,657,711	643,337	8,508,847	54,809,895
Revenues over (under) expenditures	691,343	(557,899)	(1,046,463)	(913,019)
Other financing sources (uses)				
Issuance of lease payable	189,276	-	-	189,276
Transfers in	105,441	870,000	1,851	977,292
Transfers out	(871,851)	-	(105,441)	(977,292)
Total other financing sources (uses)	(577,134)	870,000	(103,590)	189,276
Net change in fund balances	114,209	312,101	(1,150,053)	(723,743)
Fund balances, beginning of year	8,114,700	1,691,139	3,410,635	13,216,474
Fund balances, end of year	\$ 8,228,909	\$ 2,003,240	\$ 2,260,582	\$ 12,492,731

The accompanying notes are an integral part of these financial statements.

ADRIAN PUBLIC SCHOOLS

Reconciliation

Net Changes in Fund Balances of Governmental Funds
to Change in Net Position of Governmental Activities
For the Year Ended June 30, 2023

Net change in fund balances - total governmental funds \$ (723,743)

Amounts reported for *governmental activities* in the statement of activities
are 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/amortization expense.

Capital assets purchased/constructed	5,157,673
Depreciation/amortization expense	(2,813,017)

Bond proceeds provide current financial resources to governmental funds in the period
issued, but issuing bonds increases long-term debt in the statement of net
position. Repayment of bond principal is an expenditure in the governmental funds,
but the repayment reduces long-term debt in the statement of net position.

Principal payments on bonds, notes, and other long-term liabilities	2,242,197
Issuance of bonds, notes, and other long-term liabilities	(189,276)
Amortization of bond premiums	424,047
Amortization of charge on bond refunding	(119,452)

Interest on long-term debt in the statement of activities differs from the amount
reported in the governmental funds because interest is recorded as an expenditure
in the funds when it is due, and in the statement of activities when interest accrues.

Change in accrued interest payable on bonds	15,725
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Some expenses reported in the statement of activities do not require the use of current
financial resources and therefore are not reported as expenditures in the funds.

Change in the accrual for compensated absences and early retirement incentive	130,034
Change in the net pension liability and related deferred amounts	(105,668)
Change in the net other postemployment benefit liability and related deferred amounts	2,819,782

Internal service funds are used by management to charge the costs of certain activities,
such as insurance to individual funds. The net revenue (expense) of the internal
service fund is reported with governmental activities.

Operating income from governmental activities accounted for in internal service funds	<u>7,649</u>
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Change in net position of governmental activities \$ 6,845,951

The accompanying notes are an integral part of these financial statements.

ADRIAN PUBLIC SCHOOLS

Statement of Revenues, Expenditures and Changes in Fund Balance

Budget and Actual - General Fund

For the Year Ended June 30, 2023

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues				
Local sources	\$ 4,828,512	\$ 5,369,586	\$ 5,021,951	\$ (347,635)
State sources	25,647,268	31,237,171	30,228,098	(1,009,073)
Federal sources	11,851,349	10,445,005	9,294,649	(1,150,356)
Interdistrict sources	1,705,703	1,830,521	1,804,356	(26,165)
Total revenues	44,032,832	48,882,283	46,349,054	(2,533,229)
Expenditures				
Instruction:				
Basic programs	17,104,580	19,850,780	19,686,956	(163,824)
Added needs	6,288,432	6,274,067	5,805,634	(468,433)
Adult and continuing education	122,652	192,103	175,419	(16,684)
	<u>23,515,664</u>	<u>26,316,950</u>	<u>25,668,009</u>	<u>(648,941)</u>
Supporting services:				
Pupil services	2,916,606	3,092,365	2,957,049	(135,316)
Instructional staff	2,058,906	2,160,933	1,997,906	(163,027)
General administration	832,100	772,844	776,261	3,417
School administration	2,249,819	2,276,332	2,293,709	17,377
Business office	1,179,676	830,278	843,669	13,391
Operations and maintenance	3,343,920	4,277,117	3,839,115	(438,002)
Pupil transportation	1,351,353	1,503,017	1,462,099	(40,918)
Central services	681,220	785,084	756,262	(28,822)
Other support services	-	24,072	25,404	1,332
	<u>14,613,600</u>	<u>15,722,042</u>	<u>14,951,474</u>	<u>(770,568)</u>
Athletics	<u>1,252,330</u>	<u>1,149,492</u>	<u>1,116,496</u>	<u>(32,996)</u>
Community services	<u>293,192</u>	<u>1,021,903</u>	<u>284,303</u>	<u>(737,600)</u>
Facilities acquisition, construction, and improvements	<u>21,734</u>	<u>83,363</u>	<u>102,728</u>	<u>19,365</u>
Payments to other governments	<u>-</u>	<u>134,400</u>	<u>134,400</u>	<u>-</u>
Debt service:				
Principal	-	17,286	17,197	(89)
Interest and fiscal charges	-	2,732	2,732	-
	<u>-</u>	<u>20,018</u>	<u>19,929</u>	<u>(89)</u>
Capital outlay	<u>4,180,895</u>	<u>3,770,095</u>	<u>3,380,372</u>	<u>(389,723)</u>
Total expenditures	43,877,415	48,218,263	45,657,711	(2,560,552)

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ADRIAN PUBLIC SCHOOLS

Statement of Revenues, Expenditures and Changes in Fund Balance

Budget and Actual - General Fund

For the Year Ended June 30, 2023

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues over expenditures	\$ 155,417	\$ 664,020	\$ 691,343	\$ 27,323
Other financing sources (uses)				
Issuance of lease payable	-	205,000	189,276	(15,724)
Transfers in	90,000	100,000	105,441	5,441
Transfers out	(200,000)	(750,000)	(871,851)	121,851
Total other financing uses	(110,000)	(445,000)	(577,134)	(116,410)
Net change in fund balance	45,417	219,020	114,209	(89,087)
Fund balance, beginning of year	8,114,700	8,114,700	8,114,700	-
Fund balance, end of year	\$ 8,160,117	\$ 8,333,720	\$ 8,228,909	\$ (89,087)

concluded.

The accompanying notes are an integral part of these financial statements.

ADRIAN PUBLIC SCHOOLS

Statement of Net Position

Proprietary Funds

June 30, 2023

	Enterprise Fund	Governmental Activities
	Catering Fund	Internal Service Fund
Assets		
Current assets:		
Cash and cash equivalents	\$ 55,427	\$ 28,694
Accounts receivable	3,029	1,576
Inventory	345	-
	<hr/>	<hr/>
Total assets	\$ 58,801	\$ 30,270
	<hr/> <hr/>	<hr/> <hr/>
Net position, unrestricted	\$ 58,801	\$ 30,270
	<hr/> <hr/>	<hr/> <hr/>

The accompanying notes are an integral part of these financial statements.

ADRIAN PUBLIC SCHOOLS

Statement of Revenues, Expenses and Changes in Fund Net Position

Proprietary Funds

For the Year Ended June 30, 2023

	Enterprise Fund	Governmental Activities
	Catering Fund	Internal Service Fund
Operating revenues		
Charges for services	\$ 18,689	\$ 7,649
Operating expenses		
Salaries	2,889	-
Employee benefits	1,570	-
Supplies	8,954	-
Office expense	695	-
Total operating expenses	14,108	-
Operating income	4,581	7,649
Nonoperating revenue		
Interest income	1,715	-
Change in net position	6,296	7,649
Net position, beginning of year	52,505	22,621
Net position, end of year	\$ 58,801	\$ 30,270

The accompanying notes are an integral part of these financial statements.

ADRIAN PUBLIC SCHOOLS

Statement of Cash Flows

Proprietary Funds

For the Year Ended June 30, 2023

	Enterprise Fund	Governmental Activities
	Catering Fund	Internal Service Fund
Cash flows from operating activities		
Cash received from customers and others	\$ 18,809	\$ 7,649
Cash payments to employees	(4,459)	-
Cash payments to suppliers for goods and services	(9,649)	(7,749)
Net cash provided by (used in) operating activities	4,701	(100)
Cash flows from investing activities		
Interest received	1,715	-
Net change in cash and cash equivalents	6,416	(100)
Cash and cash equivalents, beginning of year	49,011	28,794
Cash and cash equivalents, end of year	<u>\$ 55,427</u>	<u>\$ 28,694</u>
Reconciliation of operating income to net cash provided by (used in) operating activities		
Operating income	\$ 4,581	\$ 7,649
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:		
Changes in assets and liabilities:		
Accounts receivable	117	(1,576)
Inventory	3	-
Accounts payable	-	(1,011)
Other liabilities	-	(5,162)
Net cash provided by (used in) operating activities	<u>\$ 4,701</u>	<u>\$ (100)</u>

The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

ADRIAN PUBLIC SCHOOLS

Notes to Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

Adrian Public Schools (the “District”) has followed the guidelines of the Governmental Accounting Standards Board has determined that no entities should be consolidated into its basic financial statements as component units. Therefore, the reporting entity consists of the primary government financial statements only. The criteria for including a component unit include significant operational or financial relationships with the District.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental and proprietary funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements and proprietary fund financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period or within one year for expenditure-driven grants. 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.

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

ADRIAN PUBLIC SCHOOLS

Notes to Financial Statements

The District reports the following major governmental funds:

The *general fund* is used to account for all financial resources except those accounted for and reported in another fund.

The *capital projects and technology fund* is used to account for all financial resources restricted, committed or assigned to expenditure for the acquisition or construction of certain capital assets.

The District reports the following major proprietary fund -

The *catering fund* accounts for the catering services performed by food service employees.

Additionally, the District reports the following fund types:

The *special revenue funds* are used to account for and report the proceeds of *specific revenue sources* that are *restricted or committed* to expenditure for *specific purposes* other than debt service or capital projects.

The *debt service funds* are used to account for and report financial resources that are restricted, committed or assigned to expenditure for principal and interest.

The *capital projects funds* are used to account for and report financial resources restricted, committed or assigned to expenditure for the acquisition or construction of capital assets.

The *internal service fund* is used to account for and report unemployment expenses. The fund captures a percentage on all salaries in all funds to assist in making the potential unemployment liability as minimal as possible.

Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Equity

Deposits and Investments

The District's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

The District's investments in the Michigan CLASS government investment pool are stated at NAV.

Receivables and Payables

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds". These interfund balances, as applicable, result primarily from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

ADRIAN PUBLIC SCHOOLS

Notes to Financial Statements

Inventory and Prepaids

Inventory is valued at the lower of cost (first in, first out) or market. Inventory in the food service and catering funds consists of expendable supplies held for consumption. The cost is recorded as an expenditure when consumed rather than when purchased. Inventories reported in governmental funds are equally offset by a nonspendable fund balance which indicates that they do not constitute “available spendable resources” even though they are a component of fund balance.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaids in both government-wide and fund financial statements.

Capital Assets

Capital assets, which include property and equipment, are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$2,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated acquisition cost at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Capital assets of the District are depreciated using the straight line method over the following estimated useful lives:

	Years
Land improvements	5-20
Buildings and improvements	50
Furniture and equipment	5-20
Licensed vehicles	6

Deferred Outflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net assets that applies to a future period(s) and will not be recognized as an outflow of resources (expense/expenditure) until then. The District reports deferred outflows for the charge on refunding. This amount represents the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The District also reports deferred outflows of resources related to the net pension liability and the net other postemployment benefit liability. A portion of these costs represent contributions to the plan subsequent to the plan measurement date.

ADRIAN PUBLIC SCHOOLS

Notes to Financial Statements

Compensated Absences and Early Retirement Incentive

It is the District's policy to permit employees to accumulate various earned but unused vacation and sick pay benefits. These are accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations or retirements.

Employees accrue 10-13 days of sick leave, per year, which accumulates if not used. Sick time is paid upon termination only to employees who have ten or more years of service with the District. The maximum payout upon termination varies, depending on the employee's classification (teacher, administrator, etc.).

Administrators and other support staff working year-round accrue vacation time in varying amounts. Teachers and other personnel working less than twelve months during the year do not receive paid vacation time, but are paid only for the number of days they are required to work each year. Upon termination, an employee may elect to receive the unused portion of his/her vacation time in a payout.

Leave time is granted to some employee groups as opposed to sick and/or vacation. These are accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations or retirements.

All payouts are made to the individual employee's 403(b) retirement account.

Long-term Obligations

In the government-wide financial statements, long-term obligations are reported as liabilities in the governmental activities statement of net position. Where applicable, bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received in debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual proceeds received, are reported as debt service expenditures when incurred.

Deferred Inflows of Resources

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net assets that applies to one or more future periods and so will not be recognized as an inflow of resources (revenue) until that time. The District reports deferred inflows of resources related to pension and other postemployment benefit costs in the government-wide statement of net position.

ADRIAN PUBLIC SCHOOLS

Notes to Financial Statements

Leases

Lessee. The District is a lessee for a noncancellable lease of equipment. The District recognizes a lease liability and an intangible right-to-use lease asset (lease asset) in the government-wide financial statements. The District recognizes lease liabilities with an initial, individual value of \$2,000 or more.

At the commencement of a lease, the District initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made. The lease asset is initially measured as the initial amount of the lease liability, adjusted for lease payments made at or before the lease commencement date, plus certain initial direct costs. Subsequently, the lease asset is amortized on a straight-line basis over its useful life.

Key estimates and judgments related to leases include how the District determines (1) the discount rate it uses to discount the expected lease payments to present value, (2) lease term, and (3) lease payments. The District uses the interest rate charged by the lessor as the discount rate. When the interest rate charged by the lessor is not provided, the District generally uses its estimated incremental borrowing rate as the discount rate for leases. The lease term includes the noncancellable period of the lease. Lease payments included in the measurement of the lease liability are composed of fixed payments and purchase option price (if applicable) that the District is reasonably certain to exercise.

The District monitors changes in circumstances that would require a remeasurement of its lease and will remeasure the lease asset and liability if certain changes occur that are expected to significantly affect the amount of the lease liability.

Fund Equity

Governmental funds report *nonspendable fund balance* for amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. *Restricted fund balance* is reported when externally imposed constraints are placed on the use of the resources by grantors, contributors, or laws or regulations of other governments. *Committed fund balance* is reported for amounts that can be used for specific purposes pursuant to constraints imposed by formal action if the government's highest level of decision making authority, the Board of Education. A formal resolution of the Board of Education is required to establish, modify or rescind a fund balance commitment. The District reports *assigned fund balance*, when applicable, for amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed. The Board of Education has given authority to the Assistant Superintendent to assign fund balances. *Unassigned fund balance* is the residual classification for the general fund.

When the District incurs an expenditure for purposes for which various fund balance classification can be used, it is the District's policy to use restricted fund balance first, then committed fund balance, assigned fund balance, and finally unassigned fund balance.

Pensions and Other Postemployment Benefits

For purposes of measuring the net pension and other postemployment benefit liabilities, deferred outflows of resources and deferred inflows of resources related to pensions and other postemployment benefits, and pension and other postemployment benefit expenses, information about the fiduciary net position of the plan and additions to/deductions from the plan fiduciary net position have been determined on the same basis as they are reported by the plan. 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.

ADRIAN PUBLIC SCHOOLS

Notes to Financial Statements

2. BUDGETARY INFORMATION

The general and special revenue funds are under formal budgetary control. Budgets shown in the financial statements are adopted on a basis consistent with generally accepted accounting principles (GAAP), and are not significantly different from the modified accrual basis used to reflect actual results, and consist only of those amounts contained in the formal budget as originally adopted or as amended by the Board of Education. The budgets for the general and special revenue funds are adopted on a functional basis.

During the year, the District incurred expenditures in the general fund, which were in excess of amounts budgeted, as follows:

	Final Budget	Actual	Over Budget
General fund			
Supporting services:			
General administration	\$ 772,844	\$ 776,261	\$ 3,417
School administration	2,276,332	2,293,709	17,377
Business office	830,278	843,669	13,391
Other support services	24,072	25,404	1,332
Facilities acquisition, construction, and improvements	83,363	102,728	19,365
Transfers out	750,000	871,851	121,851

All annual appropriations lapse at fiscal year end.

3. DEPOSITS AND INVESTMENTS

A reconciliation of cash and investments as shown on the Statement of Net Position follows:

Statement of Net Position	
Cash and cash equivalents	\$ 9,333,702
Investments	886,349
Total	<u>\$ 10,220,051</u>
Deposits and investments	
Bank deposits -	
Checking and savings accounts	\$ 9,333,672
Investments	886,349
Cash on hand	30
Total	<u>\$ 10,220,051</u>

ADRIAN PUBLIC SCHOOLS

Notes to Financial Statements

Statutory Authority

State statutes authorize the District to invest in:

Bonds, bills, or notes of the United States; obligations, the principal and interest of which are fully guaranteed by the United States; or obligations of the State. In a primary or fourth class school district, the bonds, bills, or notes shall be payable at the option of the holder upon not more than 90 days notice or, if not so payable, shall have maturity dates not more than 5 years after the purchase dates.

Certificates of deposit insured by a State or national bank, savings accounts of a state or federal savings and loan association, or certificates of deposit or share certificates of a state or federal credit union organized and authorized to operate in this State.

Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.

Securities issued or guaranteed by agencies or instrumentalities of the United States government or federal agency obligation repurchase agreements, and bankers' acceptance issued by a bank that is a member of the federal deposit insurance corporation.

Mutual funds composed entirely of investment vehicles that are legal for direct investment by a school district.

Investment pools, as authorized by the surplus funds investment pool act, composed entirely of instruments that are legal for direct investment by a school district.

The District's investment policy allows for all of these types of investments.

Investments

The District chooses to disclose its investments by specific identification. As of year end, the District had the following investment:

Investment	Maturity	Amortized Cost / Fair Value	Rating
Michigan CLASS government investment investment pool	n/a	<u>\$ 886,349</u>	S&P - AAAM

ADRIAN PUBLIC SCHOOLS

Notes to Financial Statements

Deposit and Investment Risk

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified above. The District's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk. State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in the list of authorized investments above. The District's investment policy does not have specific limits in excess of state law on investment credit risk. Credit risk ratings on investments are noted above.

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned. State law does not require and the District does not have a policy for deposit custodial credit risk. As of year end, \$10,010,103 of the District's bank balance of \$10,260,103 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial Credit Risk – Investments. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the District does not have a policy for investment custodial credit risk. None of the District's investments are subject to custodial credit risk because their existence is not evidenced by securities that exist in physical or book form.

Concentration of Credit Risk. State law limits allowable investments but does not limit concentration of credit risk as identified in the list of authorized investments above. The District's investment policy does not have specific limits in excess of state law on concentration of credit risk. All investments held at year end are reported above.

Fair Value. The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The investments in the Michigan CLASS government investment pool are not categorized as they are measured at net asset value per share or its equivalent.

Investments in Entities that Calculate Net Asset Value per Share. The District holds share in Michigan CLASS whereby the fair value of the investment is measured on a recurring basis using net asset value per share (or its equivalent) of the investment pool as a practical expedient.

ADRIAN PUBLIC SCHOOLS

Notes to Financial Statements

At year end, the net asset value of the District's investment in Michigan CLASS was \$886,349. The investment pool had no unfunded commitments, specific redemption frequency or redemption notice period required. The Michigan CLASS investment pool invests in U.S. treasury obligations, federal agency obligations of the U.S. government, high-grade commercial paper (rated 'A-1' or better) collateralized bank deposits, repurchase agreements (collateralized at 102% by Treasuries and agencies), and approved money-market funds. The program seeks to provide safety, liquidity, convenience, and competitive rates of return, and is designed to meet the needs of Michigan public sector investors. It purchases securities that are legally permissible under state statutes and are available for investment by Michigan counties, cities, townships, school districts, authorities, and other public agencies.

4. RECEIVABLES

Receivables as of year end for the District's governmental and business-type activities, are as follows:

	Governmental Activities	Business-type Activities
Accounts	\$ 157,895	\$ 3,029
Due from other governments	7,275,416	-
	<u>\$ 7,433,311</u>	<u>\$ 3,029</u>

ADRIAN PUBLIC SCHOOLS

Notes to Financial Statements

5. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2023 was as follows:

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Capital assets not being depreciated/amortized:					
Construction in progress	\$ 1,288,300	\$ 11,000	\$ -	\$ (1,288,300)	\$ 11,000
Capital assets being depreciated/amortized:					
Land improvements	2,769,136	221,889	-	192,870	3,183,895
Buildings and improvements	69,299,491	4,472	-	-	69,303,963
Furniture and equipment	10,337,698	4,642,834	-	1,095,430	16,075,962
Licensed vehicles	342,924	88,202	-	-	431,126
Leased equipment (Note 9)	-	189,276	-	-	189,276
	<u>82,749,249</u>	<u>5,146,673</u>	<u>-</u>	<u>1,288,300</u>	<u>89,184,222</u>
Less accumulated depreciation/amortization for:					
Land improvements	(1,128,501)	(257,291)	-	-	(1,385,792)
Buildings and improvements	(28,071,251)	(1,613,417)	-	-	(29,684,668)
Furniture and equipment	(3,798,900)	(871,942)	-	-	(4,670,842)
Licensed vehicles	(261,181)	(32,512)	-	-	(293,693)
Leased equipment (Note 9)	-	(37,855)	-	-	(37,855)
	<u>(33,259,833)</u>	<u>(2,813,017)</u>	<u>-</u>	<u>-</u>	<u>(36,072,850)</u>
Total capital assets being depreciated/amortized, net	<u>49,489,416</u>	<u>2,333,656</u>	<u>-</u>	<u>1,288,300</u>	<u>53,111,372</u>
Governmental activities capital assets, net	<u>\$ 50,777,716</u>	<u>\$ 2,344,656</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 53,122,372</u>

Depreciation/amortization expense of \$2,813,017 was not allocated to specific functions and is reported as "unallocated depreciation/amortization" on the statement of activities.

At June 30, 2023, the District had outstanding construction commitments under construction contracts of approximately \$94,000.

ADRIAN PUBLIC SCHOOLS

Notes to Financial Statements

6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities are comprised of the following:

	Governmental Activities
Fund Financial Statements:	
Accounts payable	\$ 194,986
Accrued payroll	2,569,704
Other liabilities	<u>1,422,516</u>
	4,187,206
Government-wide Financial Statements:	
Accrued interest on bonds, notes, and other long-term liabilities	<u>402,833</u>
	<u><u>\$ 4,590,039</u></u>

7. TRANSFERS

For the year ending June 30, 2023, interfund transfers consisted of the following:

	Transfers In	Transfers Out
General fund	\$ 105,441	\$ 871,851
Capital projects and technology fund	870,000	-
Nonmajor governmental funds	<u>1,851</u>	<u>105,441</u>
	<u><u>\$ 977,292</u></u>	<u><u>\$ 977,292</u></u>

Transfers are used to: (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; (2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due; and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. For the year ended June 30, 2023, the District transferred funds from the general fund to the capital projects and technology and food service funds. In addition, the District transferred costs from the food service fund to the general fund for indirect cost recovery.

ADRIAN PUBLIC SCHOOLS

Notes to Financial Statements

8. BONDS, NOTES AND OTHER LONG-TERM LIABILITIES

Bonds payable consist of the following issues:

2016 School Building and Site Bonds, due in annual installments of \$440,000 to \$1,605,000 through 2046, interest at 4.0% to 5.0%	\$ 23,045,000
2017 Refunding Bonds, due in annual installments of \$440,000 to \$1,605,000 through 2034, interest at 4.0% to 5.0%	<u>25,295,000</u>
	<u>\$ 48,340,000</u>

Changes in Long-term Debt. Long-term liability activity for the year ended June 30, 2023 was as follows:

	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
Governmental Activities					
General obligation bonds:					
2016 bonds	\$ 23,580,000	\$ -	\$ 535,000	\$ 23,045,000	\$ 555,000
2017 refunding bonds	26,985,000	-	1,690,000	25,295,000	1,765,000
Total general obligation bonds	50,565,000	-	2,225,000	48,340,000	2,320,000
Leases payable (Note 9)	-	189,276	17,197	172,079	36,260
Bond premium	6,859,465	-	424,047	6,435,418	424,047
Compensated absences	298,994	968,342	933,102	334,234	334,234
Early retirement incentive	626,399	1,992	167,266	461,125	61,602
Total	<u>\$ 58,349,858</u>	<u>\$ 1,159,610</u>	<u>\$ 3,766,612</u>	<u>\$ 55,742,856</u>	<u>\$ 3,176,143</u>

Compensated absences and early retirement incentives are generally liquidated by the general fund.

Annual debt service requirements to maturity for general obligation bonds are as follows:

Year Ended June 30,	Principal	Interest	Total
2024	\$ 2,320,000	\$ 2,417,000	\$ 4,737,000
2025	2,435,000	2,301,000	4,736,000
2026	2,560,000	2,179,250	4,739,250
2027	2,685,000	2,051,250	4,736,250
2028	2,820,000	1,917,000	4,737,000
2029-2033	16,365,000	7,323,500	23,688,500
2034-2038	7,965,000	3,731,750	11,696,750
2039-2043	6,515,000	2,177,250	8,692,250
2044-2046	4,675,000	472,750	5,147,750
Totals	<u>\$ 48,340,000</u>	<u>\$ 24,570,750</u>	<u>\$ 72,910,750</u>

ADRIAN PUBLIC SCHOOLS

Notes to Financial Statements

9. LEASES

Lessee - The District is involved in one agreement as a lessee that qualifies as a long-term lease agreement. Below is a summary of the nature of this agreement. This agreement qualifies as an intangible, right-to-use asset and not a financed purchase, as the District will not own the asset at the end of the contract term and the noncancelable term of the agreement surpasses one year.

The right-to-use assets and the related activity are included in Note 5, Capital Assets. The lease liability and related activity are presented in Note 8, Bonds, Notes, and Other Long-term Liabilities.

Asset Type	Remaining Term of Agreements
Equipment	5 years

The assets acquired through the lease are summarized as follows:

Equipment	\$ 189,276
Less accumulated amortization	<u>(37,855)</u>
Net book value	<u><u>\$ 151,421</u></u>

The net present value of future minimum payments as of June 30, 2023, were as follows:

Year Ended June 30,	Principal	Interest
2024	\$ 36,260	\$ 4,666
2025	37,363	3,564
2026	38,500	2,427
2027	39,671	1,256
2028	<u>20,285</u>	<u>178</u>
Totals	<u><u>\$ 172,079</u></u>	<u><u>\$ 12,091</u></u>

ADRIAN PUBLIC SCHOOLS

Notes to Financial Statements

10. NET INVESTMENT IN CAPITAL ASSETS

As of June 30, 2023, net investment in capital assets was comprised of the following:

Invested in capital assets	
Capital assets not being depreciated/amortized	\$ 11,000
Capital assets being depreciated/amortized, net	53,111,372
General obligation bonds	(48,340,000)
Leases payable	(172,079)
Bond premium	(6,435,418)
Deferred charge on refunding	<u>1,313,973</u>
Net investment in capital assets	<u>\$ (511,152)</u>

11. RISK MANAGEMENT

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

12. PROPERTY TAXES

Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. The taxes are levied as of July 1 and December 1, and are due upon receipt of the billing by the taxpayer. The actual due dates are September 14, and February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity. District property tax revenues are recognized when levied to the extent that they result in current receivables (collected within sixty days after year end). Amounts received subsequent to August 31 are recognized as revenue when collected.

13. ABATEMENTS

The District received reduced property tax revenues during 2023 as a result of industrial facilities tax exemptions (IFT's) entered into by cities, villages, townships, and authorities within the District boundaries.

The IFT's were entered into based upon the Plant Rehabilitation and Industrial Developments Districts Act (known as the Industrial Facilities Exemption), PA 198 of 1974, as amended. IFT's provide a tax incentive to manufacturers to enable renovation and expansion of aging facilities, assist in the building of new facilities, and to promote the establishment of high-tech facilities. Properties qualifying for IFT status are taxed at 50% of the millage rate applicable to other real and personal property within the District boundaries. The abatements amounted to \$6,439 in reduced District tax revenues for 2023.

ADRIAN PUBLIC SCHOOLS

Notes to Financial Statements

14. PENSION AND OTHER POSTEMPLOYMENT BENEFITS PLANS

Plan Description

The Michigan Public School Employees' Retirement System (the "System" or MPSERS) is a cost-sharing, multiple employer, state-wide, defined benefit public employee retirement plan governed by the State of Michigan (the "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 at the ORS website at www.michigan.gov/orsschools.

Pension 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% to 1.50%. 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 member 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.

ADRIAN PUBLIC SCHOOLS

Notes to Financial Statements

Participants in the defined contribution plan consist of one of the following: (1) members who worked for a Michigan public school on or after September 4, 2012 and elected to be enrolled in the defined contribution plan; (2) members who elected to transfer from the defined benefit plan to the defined contribution plan under the reform (P.A. 300) of 2012; or (3) members who worked for a Michigan public school on or after February 1, 2018 and did not elect participation in the Pension Plus 2 plan. Members who worked for a Michigan public school on or after September 4, 2012 and elected to be enrolled in the defined contribution plan receive a 100% match of the member contribution rate up to a maximum of 3% based on the member's gross earnings. Additionally, there is a mandatory employer contribution of 4% of the member's gross earnings for MPSERS members who elected to convert from a Basic or MIP benefit plan to the defined contribution benefit plan. Members electing the Pension Plus or Pension Plus 2 benefit plan receive a 50% match of the member's contribution percent up to a maximum of 1% based on the member's gross earnings. Effective October 1, 2017, there is a mandatory employer contribution of 4% of the member's gross earnings for members who elect the Defined Contribution benefit plan. The employer must match 100% of the employee contribution for any member who elected the Personal Healthcare Fund up to a maximum of 2% of the member's gross earnings. For all members with a Personal Health Care Fund (PHF), the first 2% of DC contributions must go into the PHF and must be matched 100% by the employer.

Other Postemployment Benefits Provided

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

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

Under Public Act 300 of 2012, members were given the choice between continuing the 3% contribution to retiree healthcare and keeping the premium subsidy benefit described above, or choosing not to pay the 3% contribution and instead opting out of the subsidy benefit and becoming a participant in the Personal Healthcare Fund (PHF), a portable, tax-deferred fund that can be used to pay healthcare expenses in retirement. Participants in the PHF are automatically enrolled in a 2% employee contribution into their 457 account as of their transition date, earning them a 2% employer match into a 401(k) account. Members who selected this option stop paying the 3% contribution to retiree healthcare as of the day before their transition date, and their prior contributions were deposited into their 401(k) account.

ADRIAN PUBLIC SCHOOLS

Notes to Financial Statements

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, 2021 valuation will be amortized over an 17-year period beginning October 1, 2021 and ending September 30, 2038.

The table below summarizes pension contribution rates in effect for fiscal year 2023:

Benefit Structure	Member Rates	Employer Rates
Basic	0.00% - 4.00%	20.14% - 20.16%
Member Investment Plan (MIP)	3.00% - 7.00%	20.14% - 20.16%
Pension Plus	3.00% - 6.40%	17.22% - 17.24%
Pension Plus 2	6.20%	19.93% - 19.95%
Defined Contribution	0.00%	13.73% - 13.75%

For the year ended June 30, 2023, required and actual contributions from the District to the pension plan were \$6,610,891, which included \$3,178,337, the amount received from the State and remitted to the System to fund the MPSERS unfunded actuarial accrued liability ("UAAL") stabilization rate. In addition, the District had additional contributions of \$1,851,026, which was a one-time, state payment toward the MPSERS unfunded liability.

The table below summarizes OPEB contribution rates in effect for fiscal year 2023:

Benefit Structure	Member Rates	Employer Rates
Premium Subsidy	3.00%	8.07% - 8.09%
Personal Healthcare Fund (PHF)	0.00%	7.21% - 7.23%

For the year ended June 30, 2023, required and actual contributions from the District to the OPEB plan were \$1,405,077.

ADRIAN PUBLIC SCHOOLS

Notes to Financial Statements

The table below summarizes defined contribution rates in effect for fiscal year 2023:

Benefit Structure	Member Rates	Employer Rates
Defined Contribution	0.00% - 3.00%	0.00% - 7.00%
Personal Healthcare Fund (PHF)	0.00% - 2.00%	0.00% - 2.00%

For the year ended June 30, 2023, required and actual contributions from the District for those members with a defined contribution benefit were \$284,638.

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

At June 30, 2023, the District reported a liability of \$68,589,180 for its proportionate share of the MPSERS net pension liability. The net pension liability was measured as of September 30, 2022, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 2021. The 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, 2022, the District's proportion was 0.18238%, which was an increase of 0.00634% from its proportion measured as of September 30, 2021.

For the year ended June 30, 2023, the District recognized pension expense of \$8,351,749. At June 30, 2023, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources	Net Deferred Outflows (Inflows) of Resources
Differences between expected and actual experience	\$ 686,131	\$ 153,358	\$ 532,773
Changes in assumptions	11,786,079	-	11,786,079
Net difference between projected and actual earnings on pension plan investments	160,842	-	160,842
Changes in proportion and differences between employer contributions and proportionate share of contributions	1,447,318	1,035,763	411,555
	<u>14,080,370</u>	<u>1,189,121</u>	<u>12,891,249</u>
District contributions subsequent to the measurement date	7,979,477	-	7,979,477
Total	<u>\$ 22,059,847</u>	<u>\$ 1,189,121</u>	<u>\$ 20,870,726</u>

ADRIAN PUBLIC SCHOOLS

Notes to Financial Statements

The amount reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2024. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30,	Amount
2024	\$ 3,535,279
2025	2,726,069
2026	2,541,432
2027	4,088,469
Total	\$ 12,891,249

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

At June 30, 2023, the District reported a liability of \$3,927,343 for its proportionate share of the MPSERS net OPEB liability. The net OPEB liability was measured as of September 30, 2022, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation rolled forward from September 2021. The 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, 2022, the District's proportion was 0.18542% which was an increase of 0.00771% from its proportion measured as of September 30, 2021.

For the year ended June 30, 2023, the District recognized OPEB expense of \$(1,497,483). At June 30, 2023, the 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	Net Deferred Outflows (Inflows) of Resources
Differences between expected and actual experience	\$ -	\$ 7,692,160	\$ (7,692,160)
Changes in assumptions	3,500,567	285,036	3,215,531
Net difference between projected and actual earnings on OPEB plan investments	306,953	-	306,953
Changes in proportion and differences between employer contributions and proportionate share of contributions	416,179	291,253	124,926
	<u>4,223,699</u>	<u>8,268,449</u>	<u>(4,044,750)</u>
District contributions subsequent to the measurement date	1,204,919	-	1,204,919
Total	\$ 5,428,618	\$ 8,268,449	\$ (2,839,831)

ADRIAN PUBLIC SCHOOLS

Notes to Financial Statements

The amount reported as deferred outflows of resources related to OPEB resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2024. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ended June 30,	Amount
2024	\$ (1,464,122)
2025	(1,323,056)
2026	(1,188,295)
2027	(67,613)
2028	(15,882)
Thereafter	<u>14,218</u>
Total	<u>\$ (4,044,750)</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. The total pension and OPEB liabilities in the September 30, 2021 actuarial valuation were determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial cost method	Entry age, normal
Wage inflation rate	2.75%
Investment rate of return:	
MIP and Basic plans (non-hybrid)	6.00%
Pension Plus plan (hybrid)	6.00%
Pension Plus 2 plan (hybrid)	6.00%
OPEB plans	6.00%
Projected salary increases	2.75% - 11.55%, including wage inflation at 2.75%
Cost of living adjustments	3% annual non-compounded for MIP members
Healthcare cost trend rate	Pre-65: 7.75% Year 1 graded to 3.5% Year 15; 3.0% Year 120 Post-65: 5.25% Year 1 graded to 3.5% Year 15; 3.0% Year 120
Mortality	RP-2014 Male and Female Employee Annuitant Mortality Tables, adjusted for mortality improvements using projection scale MP-2017 from 2006. For retirees, the tables were scaled by 82% for males and 78% for females. For active members, 100% of the table rates were used for both males and females.
Other OPEB 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.

ADRIAN PUBLIC SCHOOLS

Notes to Financial Statements

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 and OPEB valuations beginning with the September 30, 2018 valuation. The total pension and OPEB liabilities as of September 30, 2022, are based on the results of an actuarial valuation date of September 30, 2021, and rolled forward using generally accepted actuarial procedures, including the experience study. The recognition period for pension liabilities is 4.3922 years which is the average of the expected remaining service lives of all employees. The recognition period for OPEB liabilities is 6.2250 years which is the average of the expected remaining service lives of all employees. The recognition period for assets is 5 years.

Changes in assumptions. The payroll growth assumption for amortization purposes used in determining the fiscal year 2024 employer contributions decreased from 2.5% to 2.0%. Additionally, the discount rate used in the September 30, 2021 actuarial valuation decreased to 6.00% for the MIP and Basic plans, 6.00% for the Pension Plus Plan, and 6.00% for OPEB.

Long-term Expected Return on Pension Plan Assets

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of September 30, 2022, are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return	Expected Money-Weighted Rate of Return
Domestic equity pools	25.00%	4.77%	1.19%
Private equity pools	16.00%	8.13%	1.30%
International equity pools	15.00%	6.26%	0.94%
Fixed income pools	13.00%	-0.19%	-0.02%
Real estate and infrastructure pools	10.00%	4.95%	0.50%
Absolute return pools	9.00%	2.52%	0.23%
Real return/opportunistic pools	10.00%	5.42%	0.54%
Short-term investment pools	2.00%	-0.47%	-0.01%
	100.00%		4.67%
Inflation			2.20%
Risk adjustment			-0.87%
Investment rate of return			6.00%

ADRIAN PUBLIC SCHOOLS

Notes to Financial Statements

Long-term Expected Return on OPEB 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, 2022, are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return	Expected Money-Weighted Rate of Return
Domestic equity pools	25.00%	4.77%	1.19%
Private equity pools	16.00%	8.13%	1.30%
International equity pools	15.00%	6.26%	0.94%
Fixed income pools	13.00%	-0.19%	-0.02%
Real estate and infrastructure pools	10.00%	4.95%	0.50%
Absolute return pools	9.00%	2.52%	0.23%
Real return/opportunistic pools	10.00%	5.42%	0.54%
Short-term investment pools	2.00%	-0.47%	-0.01%
	<u>100.00%</u>		4.67%
Inflation			2.20%
Risk adjustment			-0.87%
Investment rate of return			6.00%

Rate of Return

For the fiscal year ended September 30, 2022, the annual money-weighted rate of return on pension and OPEB plan investments, net of pension and OPEB plan investment expense, was -4.18% and -4.99%, respectively. 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 6.00% was used to measure the total pension and OPEB liabilities. This discount rate was based on the long-term expected rate of return on pension and OPEB plan investments of 6.00%. The projection of cash flows used to determine these discount rates 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 and 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 pension and OPEB plan investments was applied to all periods of projected benefit payments to determine the total pension and OPEB liabilities.

ADRIAN PUBLIC SCHOOLS

Notes to Financial Statements

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

The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 6.00%, as well as what the 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 point higher:

	1% Decrease (5.00%)	Current Discount Rate (6.00%)	1% Increase (7.00%)
District's proportionate share of the net pension liability	\$ 90,512,237	\$ 68,589,180	\$ 50,523,594

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

The following presents the District's proportionate share of the net OPEB liability calculated using the discount rate of 6.00%, as well as what the 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 point higher:

	1% Decrease (5.00%)	Current Discount Rate (6.00%)	1% Increase (7.00%)
District's proportionate share of the net OPEB liability	\$ 6,587,740	\$ 3,927,343	\$ 1,686,958

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

The following presents the District's proportionate share of the net OPEB liability calculated using the assumed trend rates, as well as what the District's proportionate share of the 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
District's proportionate share of the net OPEB liability	\$ 1,644,583	\$ 3,927,343	\$ 6,489,785

Pension and OPEB Plans Fiduciary Net Position

Detailed information about the pension and OPEB plan's fiduciary net position is available in the separately issued MPSERS financial statements available on the State of Michigan Office of Retirement Services website at www.michigan.gov/orsschools.

ADRIAN PUBLIC SCHOOLS

Notes to Financial Statements

Payable to the Pension Plan

At June 30, 2023, the District reported a payable of \$1,260,517 for the outstanding amount of pension contributions to the Plan required for the year ended June 30, 2023.

Payable to the OPEB Plan

At June 30, 2023, the District reported a payable of \$138,374 for the outstanding amount of OPEB contributions to the Plan required for the year ended June 30, 2023.

15. CORONAVIRUS (COVID-19)

In March 2020, the World Health Organization declared the novel coronavirus outbreak (COVID-19) to be a global pandemic. While the pandemic has resulted in an increase in the demands on the District to deliver education to students in a safe environment, the Federal Government has also provided significant resources to help mitigate the impacts of COVID-19. Over the past several years, the District has been awarded funds from various sources to be used to respond to the impacts of the COVID-19 pandemic. Of the amount awarded, approximately \$4.6 million was expended and recognized as revenue during the current fiscal year. With these additional Federal resources, at this time management does not believe that the negative financial impact of the pandemic, if any, would be material to the District.



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REQUIRED SUPPLEMENTARY INFORMATION

ADRIAN PUBLIC SCHOOLS

Required Supplementary Information

MPSERS Cost-Sharing Multiple Employer Plan

Schedule of the District's Proportionate Share of the Net Pension Liability

	Year Ended June 30,		
	2023	2022	2021
District's proportionate share of the net pension liability	\$ 68,589,180	\$ 41,677,656	\$ 61,783,629
District's proportion of the net pension liability	0.18238%	0.17604%	0.17986%
District's covered payroll	\$ 17,979,551	\$ 16,030,526	\$ 15,930,173
District's proportionate share of the net pension liability as a percentage of its covered payroll	381.48%	259.99%	387.84%
Plan fiduciary net position as a percentage of the total pension liability	60.77%	72.60%	59.72%

See notes to required supplementary information.



Year Ended June 30,					
2020	2019	2018	2017	2016	2015
\$ 60,032,238	\$ 55,225,604	\$ 46,584,326	\$ 45,627,116	\$ 45,625,347	\$ 40,919,498
0.18128%	0.18371%	0.17976%	0.18288%	0.18680%	0.18577%
\$ 15,873,331	\$ 15,528,343	\$ 14,976,852	\$ 15,339,854	\$ 16,275,763	\$ 16,877,379
378.20%	355.64%	311.04%	297.44%	280.34%	242.45%
60.31%	62.36%	64.21%	63.27%	63.17%	66.20%

ADRIAN PUBLIC SCHOOLS

Required Supplementary Information

MPSERS Cost-Sharing Multiple Employer Plan
Schedule of the District's Pension Contributions

	Year Ended June 30,		
	2023	2022	2021
Statutorily required contribution	\$ 6,610,891	\$ 6,074,117	\$ 5,321,214
Contributions in relation to the statutorily required contribution	<u>(6,610,891)</u>	<u>(6,074,117)</u>	<u>(5,321,214)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	\$ 17,996,255	\$ 17,224,690	\$ 16,194,910
Contributions as a percentage of covered payroll	36.73%	35.26%	32.86%

See notes to required supplementary information.



Year Ended June 30,					
2020	2019	2018	2017	2016	2015
\$ 4,955,097	\$ 4,817,730	\$ 5,021,894	\$ 4,352,093	\$ 4,208,554	\$ 3,534,836
<u>(4,955,097)</u>	<u>(3,294,801)</u>	<u>(5,021,894)</u>	<u>(4,352,093)</u>	<u>(4,208,554)</u>	<u>(3,534,836)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 16,026,922	\$ 15,851,079	\$ 15,467,012	\$ 15,711,618	\$ 16,020,133	\$ 16,051,771
30.92%	30.39%	32.47%	27.70%	26.27%	22.02%

ADRIAN PUBLIC SCHOOLS

Required Supplementary Information

MPSERS Cost-Sharing Multiple Employer Plan

Schedule of the District's Proportionate Share of the Net Other Postemployment Benefit (OPEB) Liability

	Year Ended June 30,		
	2023	2022	2021
District's proportionate share of the net OPEB liability	\$ 3,927,343	\$ 2,712,499	\$ 9,635,592
District's proportion of the net OPEB liability	0.18542%	0.17771%	0.17986%
District's covered payroll	\$ 17,979,551	\$ 16,030,526	\$ 15,930,173
District's proportionate share of the net OPEB liability as a percentage of its covered payroll	21.84%	16.92%	60.49%
Plan fiduciary net position as a percentage of the total OPEB liability	83.09%	87.33%	59.44%

See notes to required supplementary information.



Year Ended June 30,		
2020	2019	2018

\$ 13,049,805	\$ 14,511,539	\$ 15,936,749
0.18181%	0.18256%	0.17997%
\$ 15,873,331	\$ 15,528,343	\$ 14,976,852
82.21%	93.45%	106.41%
48.46%	42.95%	36.39%

ADRIAN PUBLIC SCHOOLS

Required Supplementary Information

MPERS Cost-Sharing Multiple Employer Plan

Schedule of the District's Other Postemployment Benefit (OPEB) Contributions

	Year Ended June 30,		
	2023	2022	2021
Statutorily required contribution	\$ 1,405,077	\$ 1,361,014	\$ 1,330,207
Contributions in relation to the statutorily required contribution	<u>(1,405,077)</u>	<u>(1,361,014)</u>	<u>(1,330,207)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	\$ 17,996,255	\$ 17,224,690	\$ 16,194,910
Contributions as a percentage of covered payroll	7.81%	7.90%	8.21%

See notes to required supplementary information.



Year Ended June 30,		
2020	2019	2018
\$ 1,276,762	\$ 1,243,075	\$ 1,150,372
<u>(1,276,762)</u>	<u>(1,243,075)</u>	<u>(1,150,372)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 16,026,922	\$ 15,851,079	\$ 15,467,012
7.97%	7.84%	7.44%

ADRIAN PUBLIC SCHOOLS

Notes to Required Supplementary Information

Pension Information

GASB 68 was implemented in fiscal year 2015. The pension plan schedules are being built prospectively. Ultimately, 10 years of data will be presented.

The amounts presented in the schedule of the District's Proportionate Share of the Net Pension Liability were determined as of September 30 of the preceding year (the plan year).

The significant changes in assumptions for each of the fiscal years ended June 30 were as follows:

- 2023 - The payroll growth assumption for amortization purposes used in determining the fiscal year 2024 employer contributions decreased from 2.5% to 2.0%. Additionally, the discount rate used in the September 30, 2021 actuarial valuation decreased to 6.00% for the MIP and Basic plans, and 6.00% for the Pension Plus Plan.
- 2022 - The payroll growth assumption for amortization purposes used in determining the fiscal year 2023 employer contributions decreased from 3.0% to 2.5%.
- 2021 - The payroll growth assumption for amortization purposes used in determining the fiscal year 2022 employer contributions decreased from 3.5% to 3.0%.
- 2020 - The discount rate used in the September 30, 2018 actuarial valuation decreased to 6.80% for the MIP and Basic plans, 6.80% for the Pension Plus Plan, and 6.00% for the Pension Plus 2 Plan.
- 2019 - The discount rate used in the September 30, 2017 actuarial valuation decreased to 7.05% for the MIP and Basic plans, 7.00% for the Pension Plus plan, and 6.00% for the Pension Plus 2 plan.
- 2018 - The discount rate used in the September 30, 2016 actuarial valuation decreased to 7.50% for the MIP and Basic plans and 7.00% for the Pension Plus plan.

OPEB Information

GASB 75 was implemented in fiscal year 2018. The OPEB plan schedules are being built prospectively. Ultimately, 10 years of data will be presented.

The amounts presented in the schedule of the District's Proportionate Share of the Net OPEB Liability were determined as of September 30 of the preceding year (the plan year).

The significant changes in assumptions for each of the fiscal years ended June 30 were as follows:

- 2023 - The payroll growth assumption for amortization purposes used in determining the fiscal year 2024 employer contributions decreased from 2.5% to 2.0%. Additionally, the discount rate used in the September 30, 2021 actuarial valuation decreased to 6.00%.
- 2022 - The payroll growth assumption for amortization purposes used in determining the fiscal year 2023 employer contributions decreased from 3.0% to 2.5%. The healthcare cost trend rate used in the September 30, 2020 actuarial valuation increased to 7.75%.
- 2021 - The payroll growth assumption for amortization purposes used in determining the fiscal year 2022 employer contributions decreased from 3.5% to 3.0%. The healthcare cost trend rate used in the September 30, 2019 actuarial valuation decreased to 7.0%.
- 2020 - The discount rate used in the September 30, 2018 actuarial valuation decreased to 6.95%.
- 2019 - The discount rate used in the September 30, 2017 actuarial valuation decreased to 7.15%.

**COMBINING FUND FINANCIAL
STATEMENTS**

ADRIAN PUBLIC SCHOOLS

Combining Balance Sheet

Nonmajor Governmental Funds

June 30, 2023

	Special Revenue			
	Food Service	Community Service	Student Scholarship	Student Service Activity
Assets				
Cash and cash equivalents	\$ 786,298	\$ 14,708	\$ 24,218	\$ 336,312
Investments	237,643	-	-	-
Due from other governments	79,065	-	-	-
Inventory	4,961	-	-	-
Total assets	<u>\$ 1,107,967</u>	<u>\$ 14,708</u>	<u>\$ 24,218</u>	<u>\$ 336,312</u>
Liabilities				
Accounts payable	\$ 4,972	\$ -	\$ -	\$ -
Accrued payroll	6,669	-	-	-
Other liabilities	13,602	-	-	-
Due to other funds	-	-	-	460
Total liabilities	<u>25,243</u>	<u>-</u>	<u>-</u>	<u>460</u>
Fund balances				
Nonspendable	4,961	-	-	-
Restricted	1,077,763	-	24,218	-
Committed	-	14,708	-	335,852
Total fund balances	<u>1,082,724</u>	<u>14,708</u>	<u>24,218</u>	<u>335,852</u>
Total liabilities and fund balances	<u>\$ 1,107,967</u>	<u>\$ 14,708</u>	<u>\$ 24,218</u>	<u>\$ 336,312</u>



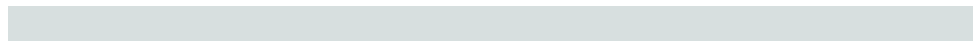
Debt Service		Capital Projects		
2016 Debt	2017 Debt Refunding	2016 Capital Projects	Maple Stadium	Total
\$ 253,485	\$ 465,059	\$ -	\$ -	\$ 1,880,080
-	84,536	-	-	322,179
-	-	-	-	79,065
-	-	-	-	4,961
<u>\$ 253,485</u>	<u>\$ 549,595</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,286,285</u>
\$ -	\$ -	\$ -	\$ -	\$ 4,972
-	-	-	-	6,669
-	-	-	-	13,602
-	-	-	-	460
-	-	-	-	25,703
-	-	-	-	4,961
253,485	549,595	-	-	1,905,061
-	-	-	-	350,560
<u>253,485</u>	<u>549,595</u>	<u>-</u>	<u>-</u>	<u>2,260,582</u>
<u>\$ 253,485</u>	<u>\$ 549,595</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,286,285</u>

ADRIAN PUBLIC SCHOOLS

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Nonmajor Governmental Funds
For the Year Ended June 30, 2023

	Special Revenue			
	Food Service	Community Service	Student Scholarship	Student Service Activity
Revenues				
Local sources	\$ 82,347	\$ 15,708	\$ 10,419	\$ 463,757
State sources	84,507	-	-	-
Federal sources	2,122,672	-	-	-
Total revenues	2,289,526	15,708	10,419	463,757
Expenditures				
Current:				
Supporting services	-	-	12,001	-
Food service	2,189,949	-	-	-
Community service	-	10,160	-	-
Student service activity	-	-	-	412,477
Other	-	-	-	-
Debt service:				
Principal	-	-	-	-
Interest and fiscal charges	-	-	-	-
Capital outlay	-	-	-	-
Total expenditures	2,189,949	10,160	12,001	412,477
Revenues over (under) expenditures	99,577	5,548	(1,582)	51,280
Other financing sources (uses)				
Transfers in	1,851	-	-	-
Transfers out	(105,441)	-	-	-
Total other financing uses	(103,590)	-	-	-
Net change in fund balances	(4,013)	5,548	(1,582)	51,280
Fund balances, beginning of year	1,086,737	9,160	25,800	284,572
Fund balances, end of year	\$ 1,082,724	\$ 14,708	\$ 24,218	\$ 335,852



Debt Service		Capital Projects		
2016 Debt	2017 Debt Refunding	2016 Capital Projects	Maple Stadium	Total
\$ 1,710,698	\$ 2,748,153	\$ 7,884	\$ 7	\$ 5,038,973
-	216,232	-	-	300,739
-	-	-	-	2,122,672
<u>1,710,698</u>	<u>2,964,385</u>	<u>7,884</u>	<u>7</u>	<u>7,462,384</u>
-	-	-	-	12,001
-	-	-	-	2,189,949
-	-	-	-	10,160
-	-	-	-	412,477
-	-	28,054	-	28,054
535,000	1,690,000	-	-	2,225,000
1,180,002	1,334,682	-	-	2,514,684
-	-	1,115,359	1,163	1,116,522
<u>1,715,002</u>	<u>3,024,682</u>	<u>1,143,413</u>	<u>1,163</u>	<u>8,508,847</u>
<u>(4,304)</u>	<u>(60,297)</u>	<u>(1,135,529)</u>	<u>(1,156)</u>	<u>(1,046,463)</u>
-	-	-	-	1,851
-	-	-	-	(105,441)
-	-	-	-	(103,590)
<u>(4,304)</u>	<u>(60,297)</u>	<u>(1,135,529)</u>	<u>(1,156)</u>	<u>(1,150,053)</u>
<u>257,789</u>	<u>609,892</u>	<u>1,135,529</u>	<u>1,156</u>	<u>3,410,635</u>
<u>\$ 253,485</u>	<u>\$ 549,595</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,260,582</u>

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SINGLE AUDIT ACT COMPLIANCE

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INDEPENDENT AUDITORS' REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE

October 18, 2023

Board of Education
Adrian Public Schools
Adrian, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of **Adrian Public Schools** (the "District") as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the District's basic financial statements. We issued our report thereon dated October 18, 2023, 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 Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain other 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.

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ADRIAN PUBLIC SCHOOLS

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2023

Federal Agency / Cluster / Program Title	Assistance Listing Number	Passed Through	Pass-through / Grantor Number
U.S. Department of Agriculture			
Child Nutrition Cluster:			
2021-2022 SSO Breakfast	10.553	MDE	221971
2021-2022 SSO Breakfast	10.553	MDE	221970
2022-2023 SSO Breakfast	10.553	MDE	231970
Entitlement commodities (non-cash)	10.555	MDE	-n/a-
Entitlement commodities bonus (non-cash)	10.555	MDE	-n/a-
2021-2022 SSO Lunch	10.555	MDE	221960
2022-2023 SSO Lunch	10.555	MDE	231960
2022-2023 SSO Snack	10.555	MDE	231980
Summer Food Service Program - Operating	10.559	MDE	220904
Summer Food Service Program - Operating	10.559	MDE	220900
Fresh Fruit and Vegetable Program	10.582	MDE	220950
Fresh Fruit and Vegetable Program	10.582	MDE	230950
Total Child Nutrition Cluster			
Child Care Food Program - Meals	10.558	MDE	221920/222010
Child Care Food Program - Meals	10.558	MDE	231920/232010
COVID-19 - Pandemic EBT Local Level Costs	10.649	MDE	220980-2022
Total U.S. Department of Agriculture			
U.S. Federal Communications Commission			
COVID-19 - Emergency Connectivity Fund Program	32.009	USAC	-n/a-
U.S. Department of Education			
Title I, Part A - Improving Basic Programs:			
Regular 21/22	84.010	MDE	221530-2122
Regular 22/23	84.010	MDE	231530-2223

Approved Awards Amount	Accrued (Unearned) Revenue at July 1, 2022	Federal Funds / Payments In-Kind Received	Expenditures (Memo Only) Prior Year(s)	Expenditures June 30, 2023	Accrued (Unearned) Revenue at June 30, 2023
\$ 9,255	\$ 9,255	\$ 9,255	\$ 9,255	\$ -	\$ -
68,506	-	68,506	-	68,506	-
466,030	-	454,082	-	466,030	11,948
	<u>9,255</u>	<u>531,843</u>	<u>9,255</u>	<u>534,536</u>	<u>11,948</u>
109,070	-	109,070	-	109,070	-
1,921	-	1,921	-	1,921	-
192,095	9,458	192,095	9,458	182,637	-
1,171,786	-	1,157,031	-	1,171,786	14,755
1,615	-	1,615	-	1,615	-
	<u>9,458</u>	<u>1,461,732</u>	<u>9,458</u>	<u>1,467,029</u>	<u>14,755</u>
22,247	22,247	22,247	-	-	-
41,367	-	20,978	-	41,367	20,389
	<u>22,247</u>	<u>43,225</u>	<u>-</u>	<u>41,367</u>	<u>20,389</u>
31,464	927	927	28,786	-	-
33,930	-	16,943	-	30,166	13,223
	<u>927</u>	<u>17,870</u>	<u>28,786</u>	<u>30,166</u>	<u>13,223</u>
	<u>41,887</u>	<u>2,054,670</u>	<u>47,499</u>	<u>2,073,098</u>	<u>60,315</u>
70,407	1,620	10,218	61,809	8,598	-
68,907	-	57,262	-	68,907	11,645
	<u>1,620</u>	<u>67,480</u>	<u>61,809</u>	<u>77,505</u>	<u>11,645</u>
3,135	-	3,135	-	3,135	-
	<u>43,507</u>	<u>2,125,285</u>	<u>109,308</u>	<u>2,153,738</u>	<u>71,960</u>
61,536	4,768	4,768	61,536	-	-
922,338	171,110	171,110	831,472	-	-
891,030	-	792,685	-	842,003	49,318
	<u>171,110</u>	<u>963,795</u>	<u>831,472</u>	<u>842,003</u>	<u>49,318</u>

continued...

ADRIAN PUBLIC SCHOOLS

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2023

Federal Agency / Cluster / Program Title	Assistance Listing Number	Passed Through	Pass-through / Grantor Number
U.S. Department of Education (concluded)			
Title III, English Language Acquisition State Grants:			
Regular 21/22	84.365	MDE	220580-2122
Regular 22/23	84.365	MDE	230580-2223
Title II, Part A - Supporting Effective Instruction State Grants:			
Regular 21/22	84.367	MDE	220520-2122
Regular 22/23	84.367	MDE	230520-2223
Title IV, Part A - Student Support and Academic Enrichment Program:			
Regular 21/22	84.424	MDE	220750-2122
Regular 22/23	84.424	MDE	230750-2223
COVID-19 - Education Stabilization Fund:			
Elementary and Secondary School Emergency Relief (ESSER) Fund:			
ESSER - Education Equity Funds	84.425D	MDE	203720-1920
ESSER Formula Funds II	84.425D	MDE	213712-2021
ESSER II - 98c Learning Loss	84.425D	MDE	213782-2223
ESSER III Formula	84.425U	MDE	213713-2122
American Rescue Plan - Homeless II	84.425W	MDE	211012-2122
Total U.S. Department of Education			
U.S. Department of Health and Human Services			
Head Start Cluster:			
Head Start	93.600	Direct	05CH012071-01-00
Head Start	93.600	Direct	05CH012071-02-00
COVID-19 - Head Start - CRRSA	93.600	Direct	05HE000408-01-C5
COVID-19 - Head Start - American Rescue Plan	93.600	Direct	05HE000408-01-C6
Total Head Start Cluster			
Medicaid Cluster -			
Medical Assistance Program -			
Medicaid Outreach	93.778	LISD	-n/a-
Total U.S. Department of Health and Human Services			
Total Federal Financial Assistance			

See notes to schedule of expenditures of federal awards.

Approved Awards Amount	Accrued (Unearned) Revenue at July 1, 2022	Federal Funds / Payments In-Kind Received	Expenditures (Memo Only) Prior Year(s)	Expenditures June 30, 2023	Accrued (Unearned) Revenue at June 30, 2023
\$ 33,463	\$ 155	\$ 155	\$ 7,824	\$ -	\$ -
31,932	-	21,982	-	26,373	4,391
	<u>155</u>	<u>22,137</u>	<u>7,824</u>	<u>26,373</u>	<u>4,391</u>
294,562	38,102	38,102	253,582	-	-
163,102	-	100,003	-	112,559	12,556
	<u>38,102</u>	<u>138,105</u>	<u>253,582</u>	<u>112,559</u>	<u>12,556</u>
116,679	15,752	15,752	93,921	-	-
84,382	-	54,202	-	54,621	419
	<u>15,752</u>	<u>69,954</u>	<u>93,921</u>	<u>54,621</u>	<u>419</u>
109,111	24,792	24,792	84,319	-	-
2,642,620	182,228	556,392	1,882,057	383,403	9,239
142,273	-	-	-	108,505	108,505
5,939,171	789,651	4,014,645	892,248	3,714,056	489,062
53,495	-	-	-	36,114	36,114
	<u>996,671</u>	<u>4,595,829</u>	<u>2,858,624</u>	<u>4,242,078</u>	<u>642,920</u>
	<u>1,221,790</u>	<u>5,789,820</u>	<u>4,045,423</u>	<u>5,277,634</u>	<u>709,604</u>
4,053,623	179,564	179,564	3,401,863	-	-
4,053,623	-	3,138,030	-	3,648,648	510,618
98,116	13,768	13,768	98,116	-	-
390,059	24,182	146,050	24,182	324,641	202,773
	<u>217,514</u>	<u>3,477,412</u>	<u>3,524,161</u>	<u>3,973,289</u>	<u>713,391</u>
12,660	-	12,660	-	12,660	-
	<u>217,514</u>	<u>3,490,072</u>	<u>3,524,161</u>	<u>3,985,949</u>	<u>713,391</u>
	<u>\$ 1,487,579</u>	<u>\$ 11,409,945</u>	<u>\$ 7,740,428</u>	<u>\$ 11,417,321</u>	<u>\$ 1,494,955</u>

concluded.

ADRIAN PUBLIC SCHOOLS

Notes to Schedule of Expenditures of Federal Awards

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of Adrian Public Schools (the "District") under programs of the federal government for the year ended June 30, 2023. 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 the District, it is not intended to and does not present the financial position, changes in net position or cash flows of the District.

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting, which is described in Note 1 to the District's financial statements. Such expenditures are recognized following the cost principles contained in the Uniform Guidance or other applicable guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

Cash received is recorded on the cash basis; expenditures are recorded on the modified accrual basis of accounting. Revenues are recognized when the qualifying expenditures have been included and all grant requirements have been met.

The Schedule has been arranged to provide information on both the actual cash received and the revenue recognized. Accordingly, the effects of accruals of accounts receivable, unearned revenue and accounts payable items at both the beginning and the end of the fiscal year have been reported.

Expenditures are in agreement with amounts reported in the financial statements and the financial reports. The amounts on the Grant Auditor Reports reconcile with this Schedule.

2. 10% DE MINIMIS COST RATE

For purposes of charging indirect costs to federal awards, the District has not elected to use the 10 percent de minimis cost rate as permitted by §200.414 of the Uniform Guidance.

3. PASS-THROUGH AGENCIES

The District receives certain federal grant as subawards from non-federal entities. Pass-through entities, where applicable, have been identified in the Schedule with an abbreviation, defined as follows:

Pass-through Agency Abbreviation	Pass-through Agency Name
MDE	Michigan Department of Education
LISD	Lenawee Intermediate School District
USAC	Universal Service Administrative Company



**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***

October 18, 2023

Board of Education
Adrian Public Schools
Adrian, 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, the business-type activities, each major fund, and the aggregate remaining fund information of **Adrian Public Schools** (the "District"), as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated October 18, 2023.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) as a basis for designing 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 the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's 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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs as item 2023-001 that we consider to be a significant deficiency.



Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's 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 financial statements. 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*.

Adrian Public Schools' Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the District's response to the finding identified in our audit and described in the accompanying schedule of findings and questioned costs. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 District'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.

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

October 18, 2023

Board of Education
Adrian Public Schools
Adrian, Michigan

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited the compliance of **Adrian Public Schools** (the "District") with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2023. The District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

In our opinion, the District 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, 2023.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); 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). Our responsibilities under those standards and the Uniform Guidance are further described in the Independent Auditors' Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the District's compliance with the compliance requirements referred to above.



Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the District's federal programs.

Independent Auditors' Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the District's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the District's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the District's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- obtain an understanding of the District's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 the District's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2023-002 and -003. Our opinion on each major federal program is not modified with respect to these matters.

Government Auditing Standards requires the auditor to perform limited procedures on the District's responses to the noncompliance findings identified in our compliance audit described in the accompanying schedule of findings and questioned costs. The District's responses were not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on them.

Report on Internal Control Over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the Independent Auditors' Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

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. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2023-002 and -003 to be significant deficiencies.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

Government Auditing Standards requires the auditor to perform limited procedures on the District's response to the internal control over compliance findings identified in our audit described in the accompanying schedule of findings and questioned costs. The District's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Purpose of this Report

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.

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ADRIAN PUBLIC SCHOOLS

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2023

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? yes X no

Significant deficiency(ies) identified? X yes 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? X yes none reported

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? X yes no

Identification of major programs and type of auditors' report issued on compliance for each major program:

<u>Assistance Listing Number</u>	<u>Name of Federal Program or Cluster</u>	<u>Type of Report</u>
10.553, 10.555, 10.559, and 10.582	Child Nutrition Cluster	Unmodified
84.010	Title I Grants to Local Educational Agencies	Unmodified
84.425	Education Stabilization Fund	Unmodified

Dollar threshold used to distinguish between Type A and Type B programs: \$ 750,000

Auditee qualified as low-risk auditee? X yes no

ADRIAN PUBLIC SCHOOLS

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2023

SECTION II – FINANCIAL STATEMENT FINDINGS

2023-001 – Accounting for Capital Assets

Finding Type. Significant Deficiency in Internal Controls over Financial Reporting

Criteria. Management is responsible for maintaining its accounting records in accordance with generally accepted accounting principles (GAAP).

Condition: During our audit, we identified approximately \$362,000 of capital outlay expenditures that were excluded from capital asset additions, including the capital asset footnote disclosure.

Cause. Internal controls did not detect all of the necessary items to be capitalized and depreciated.

Effect. As a result of this condition, the capital asset schedule was initially understated by approximately \$362,000.

Recommendation. We recommend that the District reconcile the District's capital asset records, including all capital projects, additions, and disposals, to the general ledger activity and to the capital asset footnote within the financial statements. Additionally, we recommend that the capital asset files are reviewed by an individual independent of the preparation process and that review is documented.

View of Responsible Officials. The Business Manager has reconciled the District's capital asset records, including all capital projects, additions, and disposals to the general ledger activity and to the capital asset footnote within the financial statements. The Business Manager will prepare the capital assets schedule and the Business Office Accountant will review the capital assets schedule with the Business Manager to verify the totals of all items to be capitalized and depreciated. The Business Manager and Business Office Accountant will sign the printed copy of the completed, final capital assets summary sheet.

Responsible Official. Business Manager and Business Office Accountant

Estimated Completion Date. June 30, 2024

ADRIAN PUBLIC SCHOOLS

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2023

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

2023-002 – Eligibility

Finding Type. Immaterial Noncompliance; Significant Deficiency in Internal Control over Compliance (Eligibility).

Federal program(s)

U.S. Department of Agriculture -

- Child Nutrition Cluster (ALN 10.CNC); Passed through MDE; All project numbers

Criteria. Recipients of federal awards are responsible for compliance with various requirements in accordance with the Uniform Guidance and the award agreement. The Child Nutrition Cluster requires that students receiving free or reduced rate meals meet certain income guidelines, unless they are categorically eligible by being homeless, a migrant, or a runaway. Eligibility determinations should be supported by an application or other documentation.

Condition. In our sample of 40 applications from all students receiving free or reduced cost meals during the year, we noted one instance in which the student's eligibility determination was not supported by a properly completed application or direct certification.

Cause. This condition appears to be the result of inadequate document retention and organization policies.

Effect. As a result of this condition, the District requested grant reimbursements without the proper support.

Questioned Costs. No costs have been questioned as a result of this finding inasmuch as no unallowable costs were identified.

Recommendation. We recommend that management ensures all documentation is retained and properly supports the determination for all free and reduced lunch applications and direct certification lists.

View of Responsible Officials. The Food Services Director will verify that the documentation supports the determination for all free and reduced lunch applications and direct certification lists. All documentation will be kept on file in the Food Services Director's Office for no less than the current fiscal year plus three years as required by the Michigan Department of Education.

Responsible Official. Food Service Director and Business Manager

Estimated Completion Date. June 30, 2024

ADRIAN PUBLIC SCHOOLS

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2023

SECTION III – FEDERAL AWARD FINDING AND QUESTIONED COSTS (Concluded)

2023-003 – Inaccurate Reporting/Lack of Independent Review and Approval of Reporting

Finding Type. Immaterial Noncompliance; Significant Deficiency in Internal Control over Compliance (Reporting).

Federal program(s)

U.S. Department of Agriculture -

- Child Nutrition Cluster (ALN 10.CNC); Passed through MDE; All project numbers

Criteria. Recipients of federal awards are required to report periodically on financial information, as specified by the 2 CFR 200 Compliance Supplement or grant agreement. Reported information should be supported by the entity’s accounting records and subjected to an independent review and approval prior to submission in order to detect and correct any errors or omissions.

Condition. During our audit procedures over the District's reporting process, we noted that none of the claim requests selected for testing were subject to an independent review and approval process. We also noted that one out of the three reports selected for testing had the incorrect number of snack meals.

Cause. This condition is the result of management not recognizing the importance of establishing such controls.

Effect. As a result of this condition, the District did not comply fully with the reporting requirements under this federal award. In addition, the District was exposed to an increased risk that the reports filed could contain errors and not be detected and corrected on a timely basis.

Questioned Costs. No costs have been questioned as a result of this finding inasmuch as no unallowable costs were identified.

Recommendation. We recommend that the District establish procedures to ensure that the number of meals being submitted for reimbursement agrees to the actual meal counts, and that all reports are subject to review and approval by an independent employee prior to submission.

View of Responsible Officials. The Food Services Director will review and total actual meal counts monthly, and the Food Services Administrative Assistant will review and verify the actual meal counts. The Business Manager will review and verify the monthly meal count after it is filed with the Business Office each month.

Responsible Official. Food Service Director and Business Manager

Estimated Completion Date. June 30, 2024



ADRIAN PUBLIC SCHOOLS

Summary Schedule of Prior Audit Findings

For the Year Ended June 30, 2023

None reported.



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