

Adrian Public
Schools

Year Ended
June 30, 2019

Financial
Statements and
Single Audit Act
Compliance

ADRIAN PUBLIC SCHOOLS

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INDEPENDENT AUDITORS' REPORT

September 30, 2019

Board of Education
Adrian Public Schools
Adrian, Michigan**Report on the Financial Statements**

We have audited the accompanying 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, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Independent Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Adrian Public Schools as of June 30, 2019, and the respective changes in financial position and cash flows, where applicable, thereof and the budgetary comparison for the general fund, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise 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.

The combining fund financial statements are 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. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the 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 September 30, 2019, 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 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 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.

A handwritten signature in black ink that reads "Rehmann Lobson 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, 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, 2019.

Financial Highlights

· Total net position	\$ (56,706,916)
· Change in total net position	(1,615,770)
· Fund balances, governmental funds	10,459,701
· Change in fund balances, governmental funds	(437,442)
· Unassigned fund balance, general fund	3,955,115
· Change in fund balance, general fund	481,652
· General obligation bonds outstanding	56,760,000
· Change in general obligation bonds	(1,910,000)
· Capital assets, net	54,144,542

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.

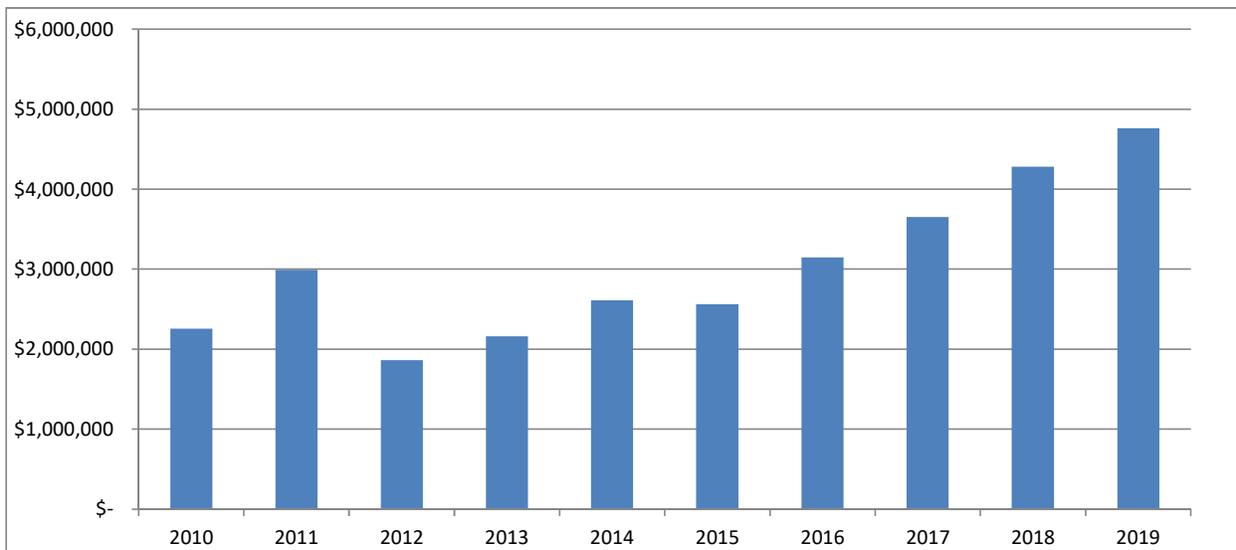
The above is somewhat simplified to make a point because there are local, state and federal laws, statutes and regulations that come with the establishment of each fund.

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 \$4,280,473 in 2018. In 2019, the fund balance increased to \$4,762,125.

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

General Fund Balance



ADRIAN PUBLIC SCHOOLS

Management's Discussion and Analysis

The 2016 capital projects fund reports a fund balance of \$3,778,346 which is primarily unspent bond proceeds. These proceeds are restricted and will be used for planned capital project improvements in the District.

Government-wide Statements

The District implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* in fiscal year 2015 and GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, in fiscal year 2018. In addition to expanded disclosure requirements, the District is required to report its proportionate share of the MPERS net pension liability and net other postemployment benefits liability on the statement of net position. This change has resulted in a negative total net position of governmental activities of \$56,768,585. Of this amount, \$(52,128,976) is unrestricted net position (deficit) and \$534,504 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.

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.

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 \$(437,442) and the Change in Net Position of \$(1,586,538).

	Net Position					
	Governmental Activities		Business-type Activities		Total	
	2019	2018	2019	2018	2019	2018
Assets						
Current and other assets	\$ 14,014,700	\$ 15,177,698	\$ 64,949	\$ 91,223	\$ 14,079,649	\$ 15,268,921
Capital assets, net	54,144,542	55,979,430	-	-	54,144,542	55,979,430
Total assets	68,159,242	71,157,128	64,949	91,223	68,224,191	71,248,351
Deferred outflows of resources						
	23,018,504	13,354,883	-	-	23,018,504	13,354,883
Liabilities						
Current and other liabilities	73,716,626	67,236,577	3,280	322	73,719,906	67,236,899
Long-term debt	65,932,887	68,228,791	-	-	65,932,887	68,228,791
Total liabilities	139,649,513	135,465,368	3,280	322	139,652,793	135,465,690
Deferred outflows of resources						
	8,296,818	4,228,690	-	-	8,296,818	4,228,690
Net position						
Net investment in capital assets	(5,174,113)	(4,049,053)	-	-	(5,174,113)	(4,049,053)
Restricted	534,504	366,912	-	-	534,504	366,912
Unrestricted (deficit)	(52,128,976)	(51,499,906)	61,669	90,901	(52,067,307)	(51,409,005)
Total net position	\$(56,768,585)	\$(55,182,047)	\$ 61,669	\$ 90,901	\$(56,706,916)	\$(55,091,146)

ADRIAN PUBLIC SCHOOLS

Management's Discussion and Analysis

	Change in Net Position					
	Governmental Activities		Business-type Activities		Total	
	2019	2018	2019	2018	2019	2018
Program revenues:						
Charges for services	\$ 1,956,885	\$ 1,954,231	\$ 56,846	\$ 67,665	\$ 2,013,731	\$ 2,021,896
Operating grants and contributions	12,390,301	12,483,534	-	-	12,390,301	12,483,534
General revenues:						
Property taxes levied for general purposes	4,066,948	3,868,290	-	-	4,066,948	3,868,290
Property taxes levied for debt service	4,681,248	4,512,959	-	-	4,681,248	4,512,959
Grants and contributions not restricted for specific purposes	17,689,593	17,697,405	-	-	17,689,593	17,697,405
Unrestricted interest and investment earnings	115,922	190,174	391	331	116,313	190,505
Other	222,614	345,411	-	-	222,614	345,411
	<u>41,123,511</u>	<u>41,052,004</u>	<u>57,237</u>	<u>67,996</u>	<u>41,180,748</u>	<u>41,120,000</u>
Expenses:						
Instruction	21,252,425	19,738,986	-	-	21,252,425	19,738,986
Supporting services	13,475,160	15,973,643	-	-	13,475,160	15,973,643
Food service	1,658,408	1,694,756	-	-	1,658,408	1,694,756
Athletics	908,092	856,403	-	-	908,092	856,403
Community services	263,746	481,350	-	-	263,746	481,350
Interest on long-term debt	2,511,089	2,564,070	-	-	2,511,089	2,564,070
Other expenses	245,965	333,937	-	-	245,965	333,937
Unallocated depreciation	2,395,164	1,443,527	-	-	2,395,164	1,443,527
Catering	-	-	86,469	54,870	86,469	54,870
Total expenses	<u>42,710,049</u>	<u>43,086,672</u>	<u>86,469</u>	<u>54,870</u>	<u>42,796,518</u>	<u>43,141,542</u>
Change in net position	(1,586,538)	(2,034,668)	(29,232)	13,126	(1,615,770)	(2,021,542)
Net position:						
Beginning of year	(55,182,047)	(53,147,379)	90,901	77,775	(55,091,146)	(53,069,604)
End of year	<u><u>\$ (56,768,585)</u></u>	<u><u>\$ (55,182,047)</u></u>	<u><u>\$ 61,669</u></u>	<u><u>\$ 90,901</u></u>	<u><u>\$ (56,706,916)</u></u>	<u><u>\$ (55,091,146)</u></u>

Financial Analysis

Governmental Activities

Net position decreased \$1,586,538, compared to a \$2,034,668 decrease in the prior year. In 2018, supporting services expense included approximately \$2.8 million related to the loss on the demolition of McKinley. The overall change in expenses, net of the loss noted above, is primarily related to changes in the net pension and other postemployment benefit liabilities, as well as an increase in depreciation expense related to significant additions to capital assets being depreciated in 2019.

Business-type Activities

Net position decreased \$29,232, compared to a \$13,126 increase in the prior year. This is primarily due to a decrease in catering events.

ADRIAN PUBLIC SCHOOLS

Management's Discussion and Analysis

Fund Balance

Fund balance is an accounting concept reflecting the current financial resources measurement focus (*modified accrual basis of accounting*). On June 30, 2019, the District's general fund balance and 2016 capital projects fund balance were \$4,762,125 and \$3,778,346, respectively. The general fund balance increased from prior to current year by \$481,652, while the 2016 capital projects fund balance decreased from prior to current year by \$1,504,824. The significant decrease in the 2016 capital projects fund is related to the significant capital outlay in the fund from District-wide projects.

Assets

Total assets in the general fund are \$7,867,031, 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

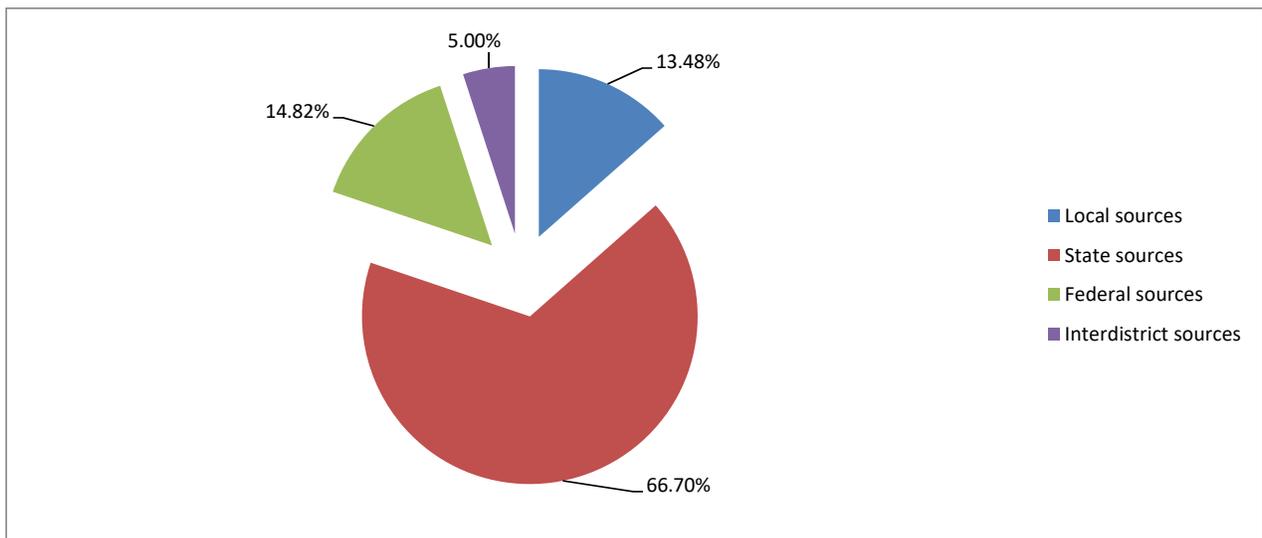
Since the enactment of Proposal A in 1994, the State of Michigan is the primary source of funds for the District (see the following chart). The State of Michigan provides schools with a foundation grant per student which is used for overall operations of the district. For 2018-2019 the District received \$7,871 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 Adrian School 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 homeowners' education related taxes are transferred to the District. The total local taxes collected for 2018-2019 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.

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



ADRIAN PUBLIC SCHOOLS

Management's Discussion and Analysis

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 District's student enrollment has declined an average of 64 students per year. The blended enrollment for 2018-2019 was 2,838. Projections for 2019-2020 are estimated at 2,788. 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 2018 student count, 1,579 students left the District by school of choice.

Special Education Funding

Special Education funding consists of the foundation grant per student, a categorical amount of \$51,423 in 2019, 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 expenses in 2018-2019. See table below. The expenses 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 Lenawee Intermediate School District (LISD) for the more intensive Special Education services, including the Laura Haviland program for the severely emotionally impaired.

	2011-12	2012-13	2013-14	2014-15
Special Education Foundation grant	\$ 633,187	\$ 574,462	\$ 636,899	\$ 753,911
State categorical	175,078	200,194	185,276	190,544
LISD Act 18 funds	1,264,710	1,309,820	1,191,393	1,253,107
Medicaid FFS/Outreach	144,952	89,736	63,319	71,685
Total reimbursements	2,217,927	2,174,212	2,076,887	2,269,246
Total Special Education costs	2,411,030	2,430,525	2,525,622	2,561,639
Unreimbursed costs	\$ (193,103)	\$ (256,313)	\$ (448,735)	\$ (292,393)
Percentage reimbursement	92.0%	89.5%	82.2%	88.6%

	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%

ADRIAN PUBLIC SCHOOLS

Management's Discussion and Analysis

Expenses

Salaries and Benefits

Compensation of employees in the form of salaries and benefits are a significant portion of the District's expenses (approximately 77%). 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 (MPSERS) for fiscal years 2019 and 2018 were set at 26.18% and 25.56%, respectively.

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 sources was not used in total, causing \$163,174 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 revenues. Once these sources were known, subsequent budget amendments recognized additional revenue and the related expenditure needs were adjusted accordingly.

Actual results were better than expected and the ending fund balance exceeded anticipated final amended budget amounts by \$217,326 as compared with the prior year difference of \$228,962.

Special Revenue Funds

The school lunch fund receives its revenues from food sales, as well as state and federal grants.

Debt Service Funds

During the 2018-2019 fiscal year, the District's activity in its debt service funds was related to the collection of taxes and payments of interest and principal on the District's outstanding long-term debt.

Capital Assets and Debt Administration

The District had \$80,177,404 invested in capital assets, net of accumulated depreciation of \$26,032,862. Significant additions include amounts added to construction in progress related to the District-wide project and the Maple Stadium project. Refer to footnote 5 for additional information regarding capital assets.

ADRIAN PUBLIC SCHOOLS

Management's Discussion and Analysis

At the fiscal year ending June 30, 2019, the District's long-term debt obligations included \$310,292 in compensated absences including accrued vacation and sick pay leave, \$730,989 of early retirement incentives, \$25,090,000 from the 2016 bond project and \$31,670,000 of refunded building and site bonds from the 2017 refunding of the 2007 refunding of the 2004 building and site bonds. More detail is presented in Note 8 in the Notes to Financial Statements.

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 \$61,669 which was a decrease of \$29,232 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.

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:

Kathy Westfall, Assistant Superintendent
Adrian Public Schools
785 Riverside Avenue, Suite 1
Adrian, MI 49221
517-264-6647
kwestfall@adrian.k12.mi.us

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

ADRIAN PUBLIC SCHOOLS

Statement of Net Position

June 30, 2019

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 3,194,029	\$ 63,026	\$ 3,257,055
Investments	5,040,520	-	5,040,520
Receivables	5,284,968	755	5,285,723
Other assets	495,183	1,168	496,351
Capital assets not being depreciated	91,227	-	91,227
Capital assets being depreciated, net	54,053,315	-	54,053,315
Total assets	68,159,242	64,949	68,224,191
Deferred outflows of resources			
Deferred charge on advance bond refunding	1,791,781	-	1,791,781
Deferred pension amounts	18,384,248	-	18,384,248
Deferred other postemployment benefit amounts	2,842,475	-	2,842,475
Total deferred outflows of resources	23,018,504	-	23,018,504
Liabilities			
Accounts payable and accrued liabilities	3,700,236	3,280	3,703,516
Unearned revenue	279,247	-	279,247
Long-term debt:			
Due within one year	2,835,883	-	2,835,883
Due in more than one year	63,097,004	-	63,097,004
Net pension liability (due in more than one year)	55,225,604	-	55,225,604
Net other postemployment benefits liability (due in more than one year)	14,511,539	-	14,511,539
Total liabilities	139,649,513	3,280	139,652,793
Deferred inflows of resources			
Deferred pension amounts	5,023,906	-	5,023,906
Deferred other postemployment benefit amounts	3,272,912	-	3,272,912
Total deferred inflows of resources	8,296,818	-	8,296,818
Net position			
Net investment in capital assets	(5,174,113)	-	(5,174,113)
Restricted for food service	518,558	-	518,558
Restricted for debt service	15,946	-	15,946
Unrestricted (deficit)	(52,128,976)	61,669	(52,067,307)
Total net position	\$ (56,768,585)	\$ 61,669	\$ (56,706,916)

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

ADRIAN PUBLIC SCHOOLS

Statement of Activities

For the Year Ended June 30, 2019

Functions / Programs	Expenses	Program Revenues		Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	
Governmental activities				
Instruction	\$ 21,252,425	\$ -	\$ 10,539,062	\$ (10,713,363)
Supporting services	13,475,160	1,831,125	128,618	(11,515,417)
Food service	1,658,408	125,760	1,722,621	189,973
Athletics	908,092	-	-	(908,092)
Community services	263,746	-	-	(263,746)
Interest on long-term debt	2,511,089	-	-	(2,511,089)
Other expenses	245,965	-	-	(245,965)
Unallocated depreciation	2,395,164	-	-	(2,395,164)
Total governmental activities	42,710,049	1,956,885	12,390,301	(28,362,863)
Business-type activities				
Catering	86,469	56,846	-	(29,623)
Total	\$ 42,796,518	\$ 2,013,731	\$ 12,390,301	\$ (28,392,486)

continued...

ADRIAN PUBLIC SCHOOLS

Statement of Activities

For the Year Ended June 30, 2019

	Governmental Activities	Business-type Activities	Total
Changes in net position			
Net expense	\$ (28,362,863)	\$ (29,623)	\$ (28,392,486)
General revenues:			
Property taxes levied for general purposes	4,066,948	-	4,066,948
Property taxes levied for debt service	4,681,248	-	4,681,248
Grants and contributions not restricted for specific purposes	17,689,593	-	17,689,593
Unrestricted interest and investment earnings	115,922	391	116,313
Other	222,614	-	222,614
Total general revenues	26,776,325	391	26,776,716
Change in net position	(1,586,538)	(29,232)	(1,615,770)
Net position, beginning of year	(55,182,047)	90,901	(55,091,146)
Net position, end of year	\$ (56,768,585)	\$ 61,669	\$ (56,706,916)

concluded.

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

ADRIAN PUBLIC SCHOOLS

Balance Sheet

Governmental Funds

June 30, 2019

	General	Capital Projects 2016	Nonmajor Governmental Funds	Total Governmental Funds
Assets				
Cash and cash equivalents	\$ 1,647,212	\$ -	\$ 1,564,623	\$ 3,211,835
Investments	531,886	4,202,099	306,535	5,040,520
Accounts receivable	116,602	-	333	116,935
Due from other governments	5,091,461	-	76,572	5,168,033
Inventory	-	-	5,058	5,058
Prepays	479,870	10,255	-	490,125
Total assets	\$ 7,867,031	\$ 4,212,354	\$ 1,953,121	\$ 14,032,506
Liabilities				
Negative equity in cash and cash equivalents	\$ -	\$ 55,066	\$ -	\$ 55,066
Accounts payable	143,224	378,942	8,102	530,268
Accrued payroll	1,830,705	-	5,770	1,836,475
Other liabilities	851,730	-	20,019	871,749
Unearned revenue	279,247	-	-	279,247
Total liabilities	3,104,906	434,008	33,891	3,572,805
Fund balances				
Nonspendable:				
Inventory	-	-	5,058	5,058
Prepays	479,870	10,255	-	490,125
Restricted:				
Food service	-	-	513,500	513,500
Debt service	-	-	475,671	475,671
Capital projects and technology	-	3,768,091	-	3,768,091
Capital projects Maple Stadium	-	-	2,824	2,824
Assigned:				
Sick leave	293,596	-	-	293,596
Retiree health and early retirement incentive	33,544	-	-	33,544
Capital projects	-	-	922,177	922,177
Unassigned	3,955,115	-	-	3,955,115
Total fund balances	4,762,125	3,778,346	1,919,230	10,459,701
Total liabilities and fund balances	\$ 7,867,031	\$ 4,212,354	\$ 1,953,121	\$ 14,032,506

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, 2019

Fund balances - total governmental funds	\$ 10,459,701
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	91,227
Capital assets being depreciated, net	54,053,315
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.	35,241
Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	
Bonds payable	(56,760,000)
Premium on bonds payable	(8,131,606)
Accrued interest on bonds payable	(459,725)
Deferred charge on advance bond refunding	1,791,781
Compensated absences and early retirement incentive	(1,041,281)
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	(55,225,604)
Deferred outflows related to the net pension liability	18,384,248
Deferred inflows related to the net pension liability	(5,023,906)
Net other postemployment benefit liability	(14,511,539)
Deferred outflows related to the net other postemployment benefit liability	2,842,475
Deferred inflows related to the net other postemployment benefit liability	(3,272,912)
Net position of governmental activities	<u><u>\$ (56,768,585)</u></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, 2019

	General	Capital Projects 2016	Nonmajor Governmental Funds	Total Governmental Funds
Revenues				
Local sources	\$ 4,622,311	\$ 100,113	\$ 4,824,315	\$ 9,546,739
State sources	22,868,907	-	247,571	23,116,478
Federal sources	5,080,275	-	1,664,683	6,744,958
Interdistrict sources	1,713,130	-	-	1,713,130
Other sources	-	-	2,206	2,206
Total revenues	34,284,623	100,113	6,738,775	41,123,511
Expenditures				
Current:				
Instruction	20,181,480	-	-	20,181,480
Supporting services	12,284,399	-	-	12,284,399
Food service	-	-	1,614,800	1,614,800
Athletics	871,998	-	-	871,998
Community services	255,007	-	-	255,007
Other expenditures	-	237,088	8,877	245,965
Debt service:				
Principal	-	-	1,910,000	1,910,000
Interest and fiscal charges	-	-	2,826,751	2,826,751
Capital outlay	-	1,367,849	4,547	1,372,396
Total expenditures	33,592,884	1,604,937	6,364,975	41,562,796
Revenues over (under) expenditures	691,739	(1,504,824)	373,800	(439,285)
Other financing sources (uses)				
Proceeds from sale of capital assets	1,843	-	-	1,843
Transfers in	90,000	-	301,930	391,930
Transfers out	(301,930)	-	(90,000)	(391,930)
Total other financing sources (uses)	(210,087)	-	211,930	1,843
Net change in fund balances	481,652	(1,504,824)	585,730	(437,442)
Fund balances, beginning of year	4,280,473	5,283,170	1,333,500	10,897,143
Fund balances, end of year	\$ 4,762,125	\$ 3,778,346	\$ 1,919,230	\$ 10,459,701

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, 2019

Net change in fund balances - total governmental funds	\$ (437,442)
Amounts reported for <i>governmental activities</i> 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 expense.	
Capital assets purchased	684,491
Depreciation expense	(2,395,164)
Proceeds from sale of capital assets	(1,843)
Loss on sale/disposal of capital assets	(122,372)
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	1,910,000
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	11,067
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	(38,143)
Change in the net pension liability and related deferred amounts	(1,997,932)
Change in the net other postemployment benefit liability and related deferred amounts	496,809
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 loss from governmental activities accounted for in internal service funds	<u>(604)</u>
Change in net position of governmental activities	<u><u>\$ (1,586,538)</u></u>

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, 2019

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues				
Local sources	\$ 4,548,459	\$ 4,692,112	\$ 4,622,311	\$ (69,801)
State sources	22,815,281	23,162,109	22,868,907	(293,202)
Federal sources	5,246,429	5,243,449	5,080,275	(163,174)
Interdistrict sources	1,570,826	1,673,213	1,713,130	39,917
Total revenues	34,180,995	34,770,883	34,284,623	(486,260)
Expenditures				
Instruction:				
Basic programs	15,562,748	15,715,388	15,489,502	(225,886)
Added needs	4,645,826	4,740,128	4,563,651	(176,477)
Adult and continuing education	99,769	139,840	128,327	(11,513)
Supporting services:				
Pupil services	2,191,839	2,306,123	2,316,169	10,046
Instructional staff	1,922,432	1,896,934	1,806,659	(90,275)
General administration	517,173	699,572	706,895	7,323
School administration	2,042,241	2,085,961	2,073,678	(12,283)
Business office	921,914	549,559	557,752	8,193
Operations and maintenance	2,876,278	2,951,498	2,911,223	(40,275)
Pupil transportation	1,227,525	1,320,039	1,292,862	(27,177)
Central services	705,771	632,915	619,161	(13,754)
Athletics	974,330	913,218	871,998	(41,220)
Community services	243,226	345,214	255,007	(90,207)
Total expenditures	33,931,072	34,296,388	33,592,884	(703,504)

continued...

ADRIAN PUBLIC SCHOOLS

Statement of Revenues, Expenditures and Changes in Fund Balance

Budget and Actual - General Fund

For the Year Ended June 30, 2019

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues over (under) expenditures	\$ 249,923	\$ 474,495	\$ 691,739	\$ 217,244
Other financing sources (uses)				
Proceeds from sale of capital assets	-	1,843	1,843	-
Transfers in	90,000	90,000	90,000	-
Transfers out	(200,000)	(302,012)	(301,930)	82
Total other financing uses	(110,000)	(210,169)	(210,087)	82
Net change in fund balance	139,923	264,326	481,652	217,326
Fund balance, beginning of year	4,280,473	4,280,473	4,280,473	-
Fund balance, end of year	\$ 4,420,396	\$ 4,544,799	\$ 4,762,125	\$ 217,326

concluded.

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

ADRIAN PUBLIC SCHOOLS

Statement of Net Position

Proprietary Funds

June 30, 2019

	Enterprise Fund	Governmental Activities
	Catering Fund	Internal Service Fund
Assets		
Current assets:		
Cash and cash equivalents	\$ 63,026	\$ 37,260
Accounts receivable	755	-
Inventory	1,168	-
	<hr/>	<hr/>
Total assets	64,949	37,260
Liabilities		
Current liabilities:		
Accounts payable	2,335	1,205
Other liabilities	945	814
	<hr/>	<hr/>
Total liabilities	3,280	2,019
Net position, unrestricted	\$ 61,669	\$ 35,241

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, 2019

	Enterprise Fund	Governmental Activities
	Catering Fund	Internal Service Fund
Operating revenues		
Charges for services	\$ 56,846	\$ 210
Operating expenses		
Salaries	29,195	-
Employee benefits	8,397	-
Contracted services	558	-
Supplies	48,116	-
Office expense	203	-
Supporting services	-	814
Total operating expenses	<u>86,469</u>	<u>814</u>
Operating loss	(29,623)	(604)
Nonoperating revenue		
Interest income	<u>391</u>	<u>-</u>
Change in net position	(29,232)	(604)
Net position, beginning of year	<u>90,901</u>	<u>35,845</u>
Net position, end of year	<u><u>\$ 61,669</u></u>	<u><u>\$ 35,241</u></u>

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, 2019

	Enterprise Fund	Governmental Activities
	Catering Fund	Internal Service Fund
Cash flows from operating activities		
Cash received from customers and others	\$ 61,086	\$ 210
Cash payments to employees	(36,956)	-
Cash payments to suppliers for goods and services	(46,555)	(7,770)
	<u>(22,425)</u>	<u>(7,560)</u>
Net cash used in operating activities	(22,425)	(7,560)
Cash flows provided by investing activities		
Interest received	391	-
	<u>391</u>	<u>-</u>
Net change in cash and cash equivalents	(22,034)	(7,560)
Cash and cash equivalents, beginning of year	85,060	44,820
	<u>85,060</u>	<u>44,820</u>
Cash and cash equivalents, end of year	<u>\$ 63,026</u>	<u>\$ 37,260</u>
Reconciliation of operating loss to net cash used in operating activities		
Operating loss	\$ (29,623)	\$ (604)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Changes in assets and liabilities:		
Accounts receivable	4,098	-
Inventory	142	-
Accounts payable	2,322	(6,565)
Other liabilities	636	(391)
	<u>636</u>	<u>(391)</u>
Net cash used in operating activities	<u>\$ (22,425)</u>	<u>\$ (7,560)</u>

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

ADRIAN PUBLIC SCHOOLS

Statement of Fiduciary Net Position

Fiduciary Funds

June 30, 2019

	Private- Purpose Trust Fund	
	Scholarships	Agency Fund
Assets		
Cash and cash equivalents	\$ 18,220	\$ 304,938
Liabilities		
Due to student groups	-	\$ 304,938
Net position		
Restricted for scholarships	\$ 18,220	

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

ADRIAN PUBLIC SCHOOLS

Statement of Changes in Fiduciary Net Position

Private-Purpose Trust Funds

For the Year Ended June 30, 2019

	Private- Purpose Trust Funds
	Scholarships
Additions	
Contributions:	
Bridleman Scholarship	\$ 8,000
Jeff Marvin	2,500
Superintendents Scholarship	1,425
Patmos Scholarship	2,500
	<hr/>
Total contributions	14,425
	<hr/>
Deductions	
Scholarships:	
Michener Scholarship	1,550
PJ Shaffer Scholarship	32,804
Bridleman Scholarship	10,000
Tau Delta Sorority Scholarship	1,000
Jeff Marvin Scholarship	2,500
Superintendents Scholarship	1,742
Ralphie McDaid Scholarship	2,000
Patmos Scholarship	2,500
	<hr/>
Total scholarships	54,096
	<hr/>
Change in net position	(39,671)
Net position, beginning of year	57,891
	<hr/>
Net position, end of year	\$ 18,220
	<hr/> <hr/>

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, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. 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, proprietary fund and fiduciary fund financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting* as are the fiduciary fund financial statements, except for agency funds, which do not have a measurement focus. 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.

ADRIAN PUBLIC SCHOOLS

Notes to Financial Statements

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.

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 *2016 capital projects 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 fund* is 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 *private-purpose trust fund* is used to account for and report amounts entrusted to the District for scholarship awards and similar trust activities.

The *agency fund* is used to account for and report assets held for other groups and organizations and is custodial in nature.

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.

ADRIAN PUBLIC SCHOOLS

Notes to Financial Statements

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 Liquid Assets Fund (MILAF) are recorded at amortized cost, and its investments in the Michigan CLASS government investment pool are stated at fair value.

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.

Inventory and Prepaids

Inventory is valued at the lower of cost (first in, first out) or market. Inventory in the food service fund 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.

ADRIAN PUBLIC SCHOOLS

Notes to Financial Statements

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 position 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.

Compensated Absences

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 done through employer paid 403(b)'s.

ADRIAN PUBLIC SCHOOLS

Notes to Financial Statements

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 position that applies to one or more future periods and so will not be recognized as an inflow of resources (revenue) until that time. The governmental funds also report unavailable revenues, which arise only under a modified accrual basis of accounting that are reported as deferred inflows of resources. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The District's deferred inflows of resources are related to pension and other postemployment benefit liabilities.

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.

ADRIAN PUBLIC SCHOOLS

Notes to Financial Statements

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.

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:			
Pupil services	\$ 2,306,123	\$ 2,316,169	\$ 10,046
General administration	699,572	706,895	7,323
Business office	549,559	557,752	8,193
Other financing uses:			
Transfers out	(302,012)	(301,930)	82

All annual appropriations lapse at fiscal year end.

ADRIAN PUBLIC SCHOOLS

Notes to Financial Statements

3. DEPOSITS AND INVESTMENTS

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

Statement of Net Position	
Cash and cash equivalents	\$ 3,257,055
Investments	<u>5,040,520</u>
	8,297,575
Statement of Fiduciary Net Position	
Fiduciary funds -	
Cash and cash equivalents	<u>323,158</u>
Total	<u><u>\$ 8,620,733</u></u>
Deposits and investments	
Bank deposits -	
Checking and savings accounts	\$ 3,580,213
Investments	<u>5,040,520</u>
Total	<u><u>\$ 8,620,733</u></u>

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.

ADRIAN PUBLIC SCHOOLS

Notes to Financial Statements

Investments

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

Investment	Maturity	Amortized Cost / Fair Value	Rating
Michigan CLASS government investment pool	n/a	\$ 835,597	S&P - AAAm
Michigan Liquid Asset Fund (MILAF) Portfolio	n/a	<u>4,204,923</u>	S&P - AAAm
		<u>\$ 5,040,520</u>	

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, \$4,112,271 of the District's bank balance of \$4,362,271 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.

ADRIAN PUBLIC SCHOOLS

Notes to Financial Statements

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.

At year end, the net asset value of the District's investment in Michigan CLASS was \$835,597. 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	Total
Accounts	\$ 116,935	\$ 755	\$ 117,690
Due from other governments	5,168,033	-	5,168,033
	<u>\$ 5,284,968</u>	<u>\$ 755</u>	<u>\$ 5,285,723</u>

ADRIAN PUBLIC SCHOOLS

Notes to Financial Statements

5. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2019 was as follows:

	Beginning Balance	Additions	Deletions	Transfers	Ending Balance
Capital assets not being depreciated:					
Construction in progress	\$ 20,791,120	\$ 91,227	\$ -	\$ (20,791,120)	\$ 91,227
Capital assets being depreciated:					
Land improvements	702,642	137,685	-	1,534,799	2,375,126
Buildings and improvements	55,126,920	291,284	(448,414)	13,707,345	68,677,135
Furniture and equipment	3,039,206	122,485	-	5,548,976	8,710,667
Licensed vehicles	281,439	41,810	-	-	323,249
	<u>59,150,207</u>	<u>593,264</u>	<u>(448,414)</u>	<u>20,791,120</u>	<u>80,086,177</u>
Less accumulated depreciation for:					
Land improvements	(247,505)	(200,102)	-	-	(447,607)
Buildings and improvements	(21,979,522)	(1,590,868)	324,199	-	(23,246,191)
Furniture and equipment	(1,534,170)	(573,803)	-	-	(2,107,973)
Licensed vehicles	(200,700)	(30,391)	-	-	(231,091)
	<u>(23,961,897)</u>	<u>(2,395,164)</u>	<u>324,199</u>	<u>-</u>	<u>(26,032,862)</u>
Total capital assets being depreciated, net	<u>35,188,310</u>	<u>(1,801,900)</u>	<u>(124,215)</u>	<u>20,791,120</u>	<u>54,053,315</u>
Governmental activities capital assets, net	<u>\$ 55,979,430</u>	<u>\$ (1,710,673)</u>	<u>\$ (124,215)</u>	<u>\$ -</u>	<u>\$ 54,144,542</u>

Depreciation expense of \$2,395,164 was not allocated to specific functions and is reported as "unallocated depreciation" on the statement of activities.

At June 30, 2019, the District had outstanding construction commitments under construction contracts of approximately \$293,000.

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	Business-type Activities	Total
Fund Financial Statements:			
Accounts payable	\$ 531,473	\$ 2,335	\$ 533,808
Accrued payroll	1,836,475	-	1,836,475
Other liabilities	872,563	945	873,508
	<u>3,240,511</u>	<u>3,280</u>	<u>3,243,791</u>
Government-wide Financial Statements:			
Accrued interest on long-term debt	459,725	-	459,725
	<u>\$ 3,700,236</u>	<u>\$ 3,280</u>	<u>\$ 3,703,516</u>

7. TRANSFERS

For the year ending June 30, 2019, interfund transfers consisted of the following:

	Transfers In	Transfers Out
General fund	\$ 90,000	\$ 301,930
Nonmajor governmental funds	301,930	90,000
	<u>\$ 391,930</u>	<u>\$ 391,930</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, 2019, 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. LONG-TERM DEBT

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%	\$ 25,090,000
2017 Refunding Bonds, due in annual installments of \$440,000 to \$1,605,000 through 2034, interest at 4.0% to 5.0%	<u>31,670,000</u>
	<u>\$ 56,760,000</u>

Changes in Long-term Debt. Long-term liability activity for the year ended June 30, 2019 was as follows:

	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
Governmental Activities					
General obligation bonds:					
2016 bonds	\$ 25,545,000	\$ -	\$ 455,000	\$ 25,090,000	\$ 475,000
2017 refunding bonds	33,125,000	-	1,455,000	31,670,000	1,505,000
Total general obligation bonds	58,670,000	-	1,910,000	56,760,000	1,980,000
Bond premium	8,555,653		424,047	8,131,606	424,047
Compensated absences	302,292	832,789	824,789	310,292	310,292
Early retirement incentive	700,846	137,128	106,985	730,989	121,544
Total	<u>\$ 68,228,791</u>	<u>\$ 969,917</u>	<u>\$ 3,265,821</u>	<u>\$ 65,932,887</u>	<u>\$ 2,835,883</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
2020	\$ 1,980,000	\$ 2,758,350	\$ 4,738,350
2021	2,065,000	2,674,400	4,739,400
2022	2,150,000	2,586,750	4,736,750
2023	2,225,000	2,511,350	4,736,350
2024	2,320,000	2,417,000	4,737,000
2025-2029	13,460,000	10,224,500	23,684,500
2030-2034	17,185,000	6,505,250	23,690,250
2035-2039	5,365,000	3,333,500	8,698,500
2040-2044	6,835,000	1,851,500	8,686,500
2045-2046	3,175,000	239,000	3,414,000
Totals	<u>\$ 56,760,000</u>	<u>\$ 35,101,600</u>	<u>\$ 91,861,600</u>

ADRIAN PUBLIC SCHOOLS

Notes to Financial Statements

9. LEASE AGREEMENT

The District maintains an operating lease agreement for a five-year and three-month term which was entered into during the year ended June 30, 2018, for the use of copiers. The District also maintains an operating lease agreement for a four year term which was entered into during the year ended June 30, 2019, for the use of copiers. Lease payments required in the future are as follows:

Year Ended June 30,	Principal
2020	\$ 102,120
2021	102,120
2022	102,120
2023	<u>24,758</u>
Total	<u>\$ 331,118</u>

Rental expense for the year ended June 30, 2019 was \$100,576.

10. NET INVESTMENT IN CAPITAL ASSETS

As of June 30, 2019, net investment in capital assets was comprised of the following:

Invested in capital assets	
Capital assets not being depreciated	\$ 91,227
Capital assets being depreciated, net	54,053,315
General obligation bonds	(56,760,000)
Bond premium	(8,131,606)
Deferred charge on refunding	1,791,781
Unexpended bond proceeds	<u>3,781,170</u>
Net investment in capital assets	<u>\$ (5,174,113)</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.

ADRIAN PUBLIC SCHOOLS

Notes to Financial Statements

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 2019 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 \$14,332 in reduced District tax revenues for 2019.

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.

ADRIAN PUBLIC SCHOOLS

Notes to Financial Statements

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.

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 MPERS 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.

ADRIAN PUBLIC SCHOOLS

Notes to Financial Statements

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.

Contributions

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

Employer contributions to the System are determined on an actuarial basis using the entry age normal actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the service of the individual between entry age and assumed exit age. The portion of this cost allocated to the current valuation year is called the normal cost. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis. The unfunded (overfunded) actuarial accrued liability as of the September 30, 2017 valuation will be amortized over a 21-year period beginning October 1, 2017 and ending September 30, 2038.

ADRIAN PUBLIC SCHOOLS

Notes to Financial Statements

The table below summarizes pension contribution rates in effect for fiscal year 2019:

Benefit Structure	Member Rates	Employer Rates
Basic	0.00% - 4.00%	17.89% - 18.25%
Member Investment Plan (MIP)	3.00% - 7.00%	17.89% - 18.25%
Pension Plus	3.00% - 6.40%	16.46% - 16.61%
Pension Plus 2	6.20%	19.59% - 19.74%
Defined Contribution	0.00%	13.39% - 13.54%

For the year ended June 30, 2019, required and actual contributions from the District to the pension plan were \$4,817,730, which included \$2,015,122, the amount received from the State and remitted to the System to fund the MPSERS unfunded actuarial accrued liability ("UAAL") stabilization rate.

The table below summarizes OPEB contribution rates in effect for fiscal year 2019:

Benefit Structure	Member Rates	Employer Rates
Premium Subsidy	3.00%	7.67% - 7.93%
Personal Healthcare Fund (PHF)	0.00%	7.42% - 7.57%

For the year ended June 30, 2019, required and actual contributions from the District to the OPEB plan were \$1,243,075.

The table below summarizes defined contribution rates in effect for fiscal year 2019:

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, 2019, required and actual contributions from the District for those members with a defined contribution benefit were \$143,254.

ADRIAN PUBLIC SCHOOLS

Notes to Financial Statements

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

At June 30, 2019, the District reported a liability of \$55,225,604 for its proportionate share of the MPSERS net pension liability. The net pension liability was measured as of September 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 2017. The District's proportion of the net pension liability was determined by dividing each employer's statutorily required pension contributions to the system during the measurement period by the percent of pension contributions required from all applicable employers during the measurement period. At September 30, 2018, the District's proportion was 0.18371%, which was an increase of 0.00395% from its proportion measured as of September 30, 2017.

For the year ended June 30, 2019, the District recognized pension expense of \$6,810,799. At June 30, 2019, 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	\$ 256,257	\$ 401,315	\$ (145,058)
Changes in assumptions	12,790,205	-	12,790,205
Net difference between projected and actual earnings on pension plan investments	-	3,776,028	(3,776,028)
Changes in proportion and differences between employer contributions and proportionate share of contributions	820,517	846,563	(26,046)
	<u>13,866,979</u>	<u>5,023,906</u>	<u>8,843,073</u>
District contributions subsequent to the measurement date	4,517,269	-	4,517,269
Total	<u><u>\$ 18,384,248</u></u>	<u><u>\$ 5,023,906</u></u>	<u><u>\$ 13,360,342</u></u>

The \$4,517,269 reported as deferred outflows of resources related to pensions resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30,	Amount
2020	\$ 3,474,919
2021	2,554,697
2022	1,958,441
2023	855,016
Total	<u><u>\$ 8,843,073</u></u>

ADRIAN PUBLIC SCHOOLS

Notes to Financial Statements

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

At June 30, 2019, the District reported a liability of \$14,511,539 for its proportionate share of the MPSERS net OPEB liability. The net OPEB liability was measured as of September 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation rolled forward from September 2017. The District's proportion of the net OPEB liability was determined by dividing each employer's statutorily required OPEB contributions to the system during the measurement period by the percent of OPEB contributions required from all applicable employers during the measurement period. At September 30, 2018, the District's proportion was 0.18256% which was an increase of 0.00259% from its proportion measured as of September 30, 2017.

For the year ended June 30, 2019, the District recognized OPEB expense of \$746,940. At June 30, 2019, 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	\$ -	\$ 2,700,970	\$ (2,700,970)
Changes in assumptions	1,536,779	-	1,536,779
Net difference between projected and actual earnings on OPEB plan investments	-	557,713	(557,713)
Changes in proportion and differences between employer contributions and proportionate share of contributions	195,095	14,229	180,866
	<u>1,731,874</u>	<u>3,272,912</u>	<u>(1,541,038)</u>
District contributions subsequent to the measurement date	1,110,601	-	1,110,601
Total	<u><u>\$ 2,842,475</u></u>	<u><u>\$ 3,272,912</u></u>	<u><u>\$ (430,437)</u></u>

The \$1,110,601 reported as deferred outflows of resources related to OPEB resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in pension expense as follows:

Year Ended June 30,	Amount
2020	\$ (386,668)
2021	(386,668)
2022	(386,668)
2023	(271,277)
2024	<u>(109,757)</u>
Total	<u><u>\$ (1,541,038)</u></u>

ADRIAN PUBLIC SCHOOLS

Notes to Financial Statements

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, 2017 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)	7.05%
Pension Plus plan (hybrid)	7.00%
Pension Plus 2 plan (hybrid)	6.00%
OPEB plans	7.15%
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	7.5% Year 1 graded to 3.0% Year 12
Mortality	RP-2014 Male and Female Healthy 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

Assumption changes as a result of an experience study for the period 2012 through 2017 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2017 valuation. The total pension liability as of September 30, 2018, is based on the results of an actuarial valuation date of September 30, 2017, and rolled forward using generally accepted actuarial procedures, including the experience study. The recognition period for pension liabilities is 4.5304 years which is the average of the expected remaining service lives of all employees. The recognition period for OPEB liabilities is 5.6018 years which is the average of the expected remaining service lives of all employees. The recognition period for assets is 5 years.

ADRIAN PUBLIC SCHOOLS

Notes to Financial Statements

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, 2018, 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	28.00%	5.70%	1.60%
Alternative investment pools	18.00%	9.20%	1.66%
International equity	16.00%	7.20%	1.15%
Fixed income pools	10.50%	0.50%	0.05%
Real estate and infrastructure pools	10.00%	3.90%	0.39%
Absolute return pools	15.50%	5.20%	0.81%
Short-term investment pools	2.00%	0.00%	0.00%
	<u>100.00%</u>		5.66%
Inflation			2.30%
Risk adjustment			<u>-0.91%</u>
Investment rate of return			<u><u>7.05%</u></u>

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, 2018, 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	28.00%	5.70%	1.60%
Private equity pools	18.00%	9.20%	1.66%
International equity	16.00%	7.20%	1.15%
Fixed income pools	10.50%	0.50%	0.05%
Real estate and infrastructure pools	10.00%	3.90%	0.39%
Absolute return pools	15.50%	5.20%	0.81%
Short-term investment pools	2.00%	0.00%	0.00%
	100.00%		5.66%
Inflation			2.30%
Risk adjustment			-0.81%
Investment rate of return			7.15%

Discount Rate

A discount rate of 7.05% was used to measure the total pension liability (7.0% for the Pension Plus plan, 6.0% for the Pension Plus 2 plan, both of which are hybrid plans provided through non-university employers only) and a discount rate of 7.15% was used to measure the total OPEB liability. This discount rate was based on the long-term expected rate of return on pension and OPEB plan investments of 7.05% (7.0% for the Pension Plus plan, 6.0% for the Pension Plus 2 plan) and 7.15%, respectively. 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 7.05% (7.00% for the Pension Plus plan, 6.00% for the Pension Plus 2 plan), 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 higher:

	1% Decrease (6.05% / 6.00% / 5.00%)	Current Discount Rate (7.05% / 7.00% / 6.00%)	1% Increase (8.05% / 8.00% / 7.00%)
District's proportionate share of the net pension liability	\$ 72,506,953	\$ 55,225,604	\$ 40,867,613

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 7.15%, 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 higher:

	1% Decrease (6.15%)	Current Discount Rate (7.15%)	1% Increase (8.15%)
District's proportionate share of the net OPEB liability	\$ 17,420,807	\$ 14,511,539	\$ 12,064,489

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 higher:

	1% Decrease (6.50%)	Current Healthcare Cost Trend Rate (7.50%)	1% Increase (8.50%)
District's proportionate share of the net OPEB liability	\$ 11,935,581	\$ 14,511,539	\$ 17,466,689

ADRIAN PUBLIC SCHOOLS

Notes to Financial Statements

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.

Payable to the Pension Plan

At June 30, 2019, the District reported a payable of \$619,167 for the outstanding amount of pension contributions to the Plan required for the year ended June 30, 2019.

Payable to the OPEB Plan

At June 30, 2019, the District reported a payable of \$109,768 for the outstanding amount of OPEB contributions to the Plan required for the year ended June 30, 2019.

15. BONDED CONSTRUCTION COSTS

The 2016 capital project fund records capital project activities funded with bonds issued after May 1, 1994. For this fund, the District has complied with the applicable provisions of §1351(a) of the Michigan Revised School Code and the applicable section of the Revised Bulletin for School District Audits of Bonded Construction Funds and Sinking Funds in Michigan.



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REQUIRED SUPPLEMENTARY INFORMATION

ADRIAN PUBLIC SCHOOLS

Required Supplementary Information
 MPERS Cost-Sharing Multiple-Employer Plan

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

	Year Ended June 30,				
	2015	2016	2017	2018	2019
District's proportion of the net pension liability	\$ 40,919,498	\$ 45,627,116	\$ 45,627,116	\$ 46,584,326	\$ 55,225,604
District's proportionate share of the net pension liability	0.18577%	0.18680%	0.18288%	0.17976%	0.18371%
District's covered payroll	\$ 16,877,379	\$ 16,275,763	\$ 15,339,854	\$ 14,976,852	\$ 15,528,343
District's proportionate share of the net pension liability as a percentage of its covered payroll	242.45%	280.34%	297.44%	311.04%	355.64%
Plan fiduciary net position as a percentage of the total pension liability	66.20%	63.17%	63.27%	64.21%	62.36%

The amounts presented for each fiscal year were determined as of September 30 of the preceding year.

Note: GASB 68 was implemented in fiscal year 2015. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

Schedule of the District's Pension Contributions

	Year Ended June 30,				
	2015	2016	2017	2018	2019
Statutorily required contribution	\$ 3,534,836	\$ 4,208,554	\$ 4,352,093	\$ 5,021,894	\$ 4,817,730
Contributions in relation to the statutorily required contribution	<u>(3,534,836)</u>	<u>(4,208,554)</u>	<u>(4,352,093)</u>	<u>(5,021,894)</u>	<u>(4,817,730)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	\$ 16,051,771	\$ 16,020,133	\$ 15,711,618	\$ 15,467,012	\$ 15,851,079
Contributions as a percentage of covered payroll	22.02%	26.27%	27.70%	32.47%	30.39%

Note: GASB 68 was implemented in fiscal year 2015. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

ADRIAN PUBLIC SCHOOLS

Required Supplementary Information MPERS Cost-Sharing Multiple-Employer Plan

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

	Year Ended	
	2018	2019
District's proportion of the net OPEB liability	\$ 15,936,749	\$ 14,511,539
District's proportionate share of the net OPEB liability	0.17997%	0.18256%
District's covered payroll	\$ 14,976,852	\$ 15,528,343
District's proportionate share of the net OPEB liability as a percentage of its covered payroll	106.41%	93.45%
Plan fiduciary net position as a percentage of the total OPEB liability	36.39%	42.95%

The amounts presented for each fiscal year were determined as of September 30 of the preceding year.

Note: GASB 75 was implemented in fiscal year 2018. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

Schedule of the District's Other Postemployment Benefit Contributions

	Year Ended	
	2018	2019
Statutorily required contribution	\$ 1,150,372	\$ 1,243,075
Contributions in relation to the statutorily required contribution	<u>(1,150,372)</u>	<u>(1,243,075)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	\$ 15,467,012	\$ 15,851,079
Contributions as a percentage of covered payroll	7.44%	7.84%

Note: GASB 75 was implemented in fiscal year 2018. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

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**COMBINING FUND FINANCIAL
STATEMENTS**

ADRIAN PUBLIC SCHOOLS

Combining Balance Sheet

Nonmajor Governmental Funds

June 30, 2019

	Special Revenue	Debt Service		Capital Projects		Total
	Food Service	2016 Debt	2017 Debt Refunding	Capital Projects and Technology	Maple Stadium	
Assets						
Cash and cash equivalents	\$ 244,178	\$ 148,130	\$ 248,168	\$ 924,147	\$ -	\$ 1,564,623
Investments	224,021	-	79,690	-	2,824	306,535
Accounts receivable	333	-	-	-	-	333
Due from other governments	76,572	-	-	-	-	76,572
Inventory	5,058	-	-	-	-	5,058
Total assets	\$ 550,162	\$ 148,130	\$ 327,858	\$ 924,147	\$ 2,824	\$ 1,953,121
Liabilities						
Accounts payable	\$ 5,815	\$ 127	\$ 190	\$ 1,970	\$ -	\$ 8,102
Accrued payroll	5,770	-	-	-	-	5,770
Other liabilities	20,019	-	-	-	-	20,019
Total liabilities	31,604	127	190	1,970	-	33,891
Fund balances						
Nonspendable	5,058	-	-	-	-	5,058
Restricted	513,500	148,003	327,668	-	2,824	991,995
Assigned	-	-	-	922,177	-	922,177
Total fund balances	518,558	148,003	327,668	922,177	2,824	1,919,230
Total liabilities and fund balances	\$ 550,162	\$ 148,130	\$ 327,858	\$ 924,147	\$ 2,824	\$ 1,953,121

ADRIAN PUBLIC SCHOOLS

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Nonmajor Governmental Funds

For the Year Ended June 30, 2019

	Special Revenue	Debt Service		Capital Projects		Total
	Food Service	2016 Debt	2017 Debt Refunding	Capital Projects and Technology	Maple Stadium	
Revenues						
Local sources	\$ 129,689	\$ 1,862,071	\$ 2,828,794	\$ 3,704	\$ 57	\$ 4,824,315
State sources	57,938	-	189,633	-	-	247,571
Federal sources	1,664,683	-	-	-	-	1,664,683
Other sources	2,206	-	-	-	-	2,206
Total revenues	1,854,516	1,862,071	3,018,427	3,704	57	6,738,775
Expenditures						
Current:						
Food service	1,614,800	-	-	-	-	1,614,800
Other expenditures	-	-	53	8,824	-	8,877
Debt service:						
Principal	-	455,000	1,455,000	-	-	1,910,000
Interest and fiscal charges	-	1,262,351	1,564,400	-	-	2,826,751
Capital outlay	-	-	-	4,547	-	4,547
Total expenditures	1,614,800	1,717,351	3,019,453	13,371	-	6,364,975
Revenues over (under) expenditures	239,716	144,720	(1,026)	(9,667)	57	373,800
Other financing sources (uses)						
Transfers in	1,930	-	-	300,000	-	301,930
Transfers out	(90,000)	-	-	-	-	(90,000)
Total other financing sources (uses)	(88,070)	-	-	300,000	-	211,930
Net change in fund balances	151,646	144,720	(1,026)	290,333	57	585,730
Fund balances, beginning of year	366,912	3,283	328,694	631,844	2,767	1,333,500
Fund balances, end of year	\$ 518,558	\$ 148,003	\$ 327,668	\$ 922,177	\$ 2,824	\$ 1,919,230

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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**

September 30, 2019

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, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements. We issued our report thereon dated September 30, 2019, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by 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, 2019

Federal Agency / Cluster / Program Title	CFDA Number	Passed Through	Pass-through / Grantor Number
U.S. Department of Agriculture			
Child Nutrition Cluster:			
National School Lunch Breakfast	10.553	MDE	181970
National School Lunch Breakfast	10.553	MDE	191970
Entitlement (non-cash)	10.555	MDE	-n/a-
National School Lunch	10.555	MDE	181960/181980
National School Lunch	10.555	MDE	191960/191980
Summer Food Service Program	10.559	MDE	180900
Summer Food Service Program	10.559	MDE	181900
Summer Food Service Program	10.559	MDE	190900
Summer Food Service Program	10.559	MDE	191900
Total Child Nutrition Cluster			
Child Care Food Program	10.558	MDE	181920/182010
Child Care Food Program	10.558	MDE	191920/192010
Fresh Fruits and Vegetables	10.582	MDE	180950
Fresh Fruits and Vegetables	10.582	MDE	190950
Total U.S. Department of Agriculture			
U.S. Department of Education			
Title I, Part A:			
Regular 17/18	84.010	MDE	181530-1718
Regular 18/19	84.010	MDE	191530-1819
Title VI, Part B:			
Regular 17/18	84.358	MDE	180660-1718
Regular 18/19	84.358	MDE	190660-1819

Approved Awards Amount	Accrued (Unearned) Revenue at July 1, 2018	Federal Funds / Payments In-Kind Received	Expenditures (Memo Only) Prior Year(s)	Expenditures June 30, 2019	Accrued (Unearned) Revenue at June 30, 2019
363,364	\$ 13,315	\$ 57,409	\$ 319,270	\$ 44,094	\$ -
345,250	-	329,251	-	345,250	15,999
	<u>13,315</u>	<u>386,660</u>	<u>319,270</u>	<u>389,344</u>	<u>15,999</u>
120,348	-	120,348	-	120,348	-
991,452	29,117	150,311	870,258	121,194	-
933,092	-	892,297	-	933,092	40,795
	<u>29,117</u>	<u>1,162,956</u>	<u>870,258</u>	<u>1,174,634</u>	<u>40,795</u>
20,486	3,112	20,846	3,112	17,734	-
2,214	330	2,214	330	1,884	-
6,198	-	-	-	6,198	6,198
649	-	-	-	649	649
	<u>3,442</u>	<u>23,060</u>	<u>3,442</u>	<u>26,465</u>	<u>6,847</u>
	<u>45,874</u>	<u>1,572,676</u>	<u>1,192,970</u>	<u>1,590,443</u>	<u>63,641</u>
97,105	4,655	17,978	83,782	13,323	-
103,798	-	97,653	-	103,798	6,145
	<u>4,655</u>	<u>115,631</u>	<u>83,782</u>	<u>117,121</u>	<u>6,145</u>
1,095	-	1,095	-	1,095	-
14,350	-	14,350	-	14,350	-
	<u>-</u>	<u>15,445</u>	<u>-</u>	<u>15,445</u>	<u>-</u>
	<u>50,529</u>	<u>1,703,752</u>	<u>1,276,752</u>	<u>1,723,009</u>	<u>69,786</u>
1,110,000	215,796	215,796	1,000,559	-	-
1,017,774	-	785,010	-	965,654	180,644
	<u>215,796</u>	<u>1,000,806</u>	<u>1,000,559</u>	<u>965,654</u>	<u>180,644</u>
52,835	7,238	7,238	52,835	-	-
54,765	-	50,654	-	54,765	4,111
	<u>7,238</u>	<u>57,892</u>	<u>52,835</u>	<u>54,765</u>	<u>4,111</u>

continued...

ADRIAN PUBLIC SCHOOLS

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2019

Federal Agency / Cluster / Program Title	CFDA Number	Passed Through	Pass-through / Grantor Number
U.S. Department of Education (concluded)			
Title III, Limited English:			
Regular 17/18	84.365	MDE	180580-1718
Regular 18/19	84.365	MDE	190520-1819
Title II, Part A:			
Regular 17/18	84.367	MDE	180520-1718
Regular 18/19	84.367	MDE	190520-1819
Title IV, Part A:			
Regular 17/18	84.424	MDE	180750-1718
Regular 18/19	84.424	MDE	190750-1819
Total U.S. Department of Education			
U.S. Department of Health and Human Services			
Head Start	93.600	Direct	05CH010384-02-01
Head Start	93.600	Direct	05CH010384-03-01
Medicaid Cluster - 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, 2018	Federal Funds / Payments In-Kind Received	Expenditures (Memo Only) Prior Year(s)	Expenditures June 30, 2019	Accrued (Unearned) Revenue at June 30, 2019
29,728	4,217	\$ 4,217	\$ 23,480	\$ -	\$ -
23,946	-	12,614	-	13,997	1,383
	<u>4,217</u>	<u>16,831</u>	<u>23,480</u>	<u>13,997</u>	<u>1,383</u>
281,513	29,698	29,698	268,575	-	-
231,874	-	181,293	-	205,140	23,847
	<u>29,698</u>	<u>210,991</u>	<u>268,575</u>	<u>205,140</u>	<u>23,847</u>
15,760	907	907	13,398	-	-
70,968	-	59,360	-	64,659	5,299
	<u>907</u>	<u>60,267</u>	<u>13,398</u>	<u>64,659</u>	<u>5,299</u>
	<u>257,856</u>	<u>1,346,787</u>	<u>1,358,847</u>	<u>1,304,215</u>	<u>215,284</u>
3,673,817	367,511	367,511	3,587,760	-	-
3,769,355	-	3,128,477	-	3,711,533	583,056
	<u>367,511</u>	<u>3,495,988</u>	<u>3,587,760</u>	<u>3,711,533</u>	<u>583,056</u>
6,201	-	6,201	-	6,201	-
	<u>367,511</u>	<u>3,502,189</u>	<u>3,587,760</u>	<u>3,717,734</u>	<u>583,056</u>
	<u>\$ 675,896</u>	<u>\$ 6,552,728</u>	<u>\$ 6,223,359</u>	<u>\$ 6,744,958</u>	<u>\$ 868,126</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, 2019. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of 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, 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



**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***

September 30, 2019

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, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated September 30, 2019.

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) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of 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. However, material weaknesses may exist that have not been identified.

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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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.

A handwritten signature in black ink that reads "Rehmann Loborn LLC". The signature is written in a cursive, flowing style.

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

September 30, 2019

Board of Education
Adrian Public Schools
Adrian, Michigan

Report on Compliance for Each Major Federal Program

We have audited the compliance of *Adrian Public Schools* (the "District") with the types of compliance requirements described 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, 2019. The District's major federal program are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Independent Auditors' Responsibility

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

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal programs. However, our audit does not provide a legal determination of the District's compliance.

Opinion on Each Major Federal Program

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, 2019.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item 2019-001. Our opinion on each major federal program is not modified with respect to this matter.

The District's response to the noncompliance finding identified in our audit is 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 compliance and, accordingly, we express no opinion on it.

Report on Internal Control Over Compliance

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies 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, we did identify a certain deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2019-001 that we consider to be a significant deficiency.

The District's response to the internal control over compliance finding identified in our audit is 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 compliance and, accordingly, we express no opinion on it.

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.

Rehmann Robson LLC

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ADRIAN PUBLIC SCHOOLS

Schedule of Findings and Questioned Costs For the Year Ended June 30, 2019

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? yes X none reported

Noncompliance material to financial statements noted? yes X no

Federal Awards

Internal control over major programs:

Material weakness(es) identified? yes X no

Significant deficiency(ies) identified? 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>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>	<u>Type of Report</u>
10.553, 10.555, & 10.559	Child Nutrition Cluster	Unmodified
84.010	Title I, Part A - Grants to Local Educational Agencies	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, 2019

SECTION II - FINANCIAL STATEMENT FINDINGS

None reported.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

2019-001 - Allowable Costs/Cost Principles

Finding Type. Immaterial Noncompliance; Significant Deficiency in Internal Controls over Compliance

Federal program(s)

U.S. Department of Agriculture

➤ Child Nutrition Cluster (CFDA# 10.553, 10.555 and 10.559); Passed through MDE; All project numbers

Criteria. The Michigan Department of Education (MDE) requires the District to obtain prior written approval from MDE before incurring the cost of a capital expenditure related to its school nutrition program. MDE requires a purchase request to be submitted for capital expenditures that exceed \$5,000 and are not on the MDE pre-approved capital expenditure list.

Condition. The District purchased a transit van and a lift gate for the van that were capitalized in fiscal year 2019. The van and the lift gate were not on the MDE pre-approved capital expenditure list and a purchase request was not submitted to MDE before incurring the costs.

Cause. While the District was aware of the requirement to obtain pre-approval for food service equipment purchases, the District was not aware that pre-approval was also required for other capital expenditures charged to the food service fund, such as the vehicles and related equipment noted here.

Effect. As a result of this condition, the District was exposed to increased risk that disbursements of federal awards could be made for unallowable costs.

Questioned Costs. The costs related to equipment purchases that were not pre-approved by MDE totaled \$12,980 for the transit van and \$15,849 for the lift gate.

Recommendation. We recommend that the District review its written policies and procedures over federal awards to ensure that all disbursements have the appropriate documentation and approval prior to incurring costs related to capital expenditures.

View of Responsible Official. The Assistant Superintendent reviewed the information with the Food Service Director to ensure all parties are aware of the MDE requirement. The 2019-20 procedures will be updated to ensure compliance.



ADRIAN PUBLIC SCHOOLS

Summary Schedule of Prior Audit Findings

For the Year Ended June 30, 2019

None reported.



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