



Adrian Public
Schools

Year Ended
June 30, 2020

Financial
Statements and
Single Audit Act
Compliance

Rehmann

ADRIAN PUBLIC SCHOOLS

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INDEPENDENT AUDITORS' REPORT

October 21, 2020

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, 2020, 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, 2020, 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 October 21, 2020, 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.

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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, 2020.

Financial Highlights

· Total net position	\$ (58,702,279)
· Change in total net position	(1,995,363)
· Fund balances, governmental funds	11,030,622
· Change in fund balances, governmental funds	570,921
· Unassigned fund balance, general fund	4,938,666
· Change in fund balance, general fund	1,042,442
· General obligation bonds outstanding	54,780,000
· Change in general obligation bonds	(1,980,000)
· Capital assets, net	52,442,931

Overview of the Financial Statements

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

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

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

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

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

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

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

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

ADRIAN PUBLIC SCHOOLS

Management's Discussion and Analysis

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

Fiduciary Funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the district-wide financial statements because the resources of those funds are *not* available to support the District's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

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

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

Fund Accounting Format

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

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

ADRIAN PUBLIC SCHOOLS

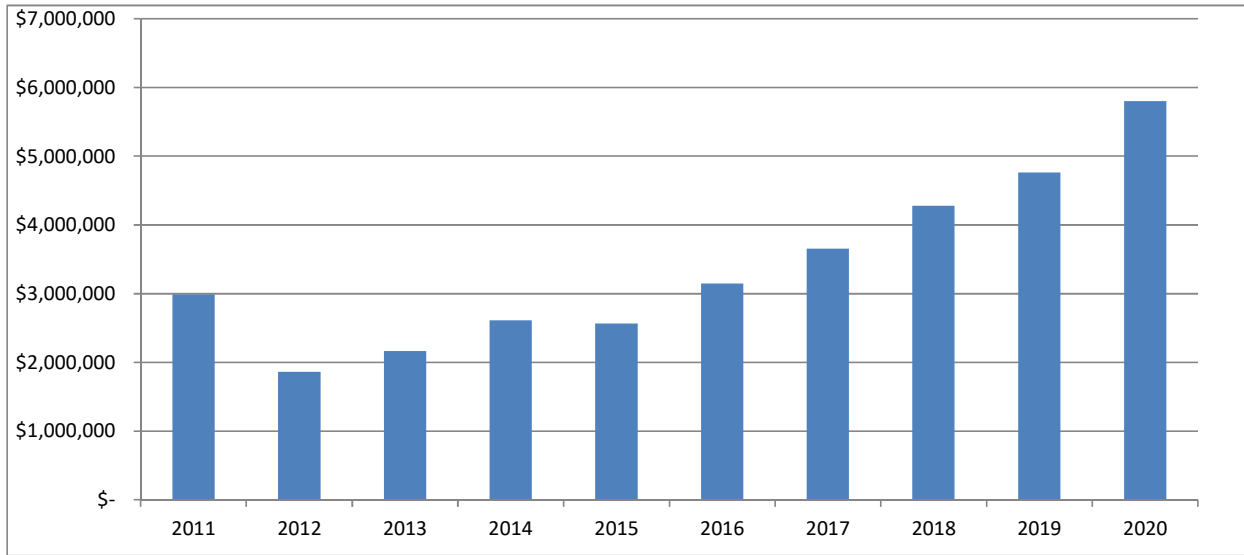
Management's Discussion and Analysis

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 \$4,762,125 in 2019. In 2020, the fund balance increased to \$5,804,567.

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

General Fund Balance



The 2016 capital projects fund reports a fund balance of \$2,831,900 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 MPSERS 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 \$58,764,168. Of this amount, \$(54,146,189) is unrestricted net position (deficit) and \$921,267 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.

ADRIAN PUBLIC SCHOOLS

Management's Discussion and Analysis

The differences between governmental activities as reported in the Statement of Net Position and the governmental funds is reconciled on a separate page following the fund level balance sheet. Another reconciliation following the Statement of Revenues, Expenditures and Changes in Fund Balances explains the difference between Net Change in Fund Balances represented in the total column of governmental funds of \$570,921 and the Change in Net Position of \$(1,995,583).

	Net Position					
	Governmental Activities		Business-type Activities		Total	
	2020	2019	2020	2019	2020	2019
Assets						
Current and other assets	\$ 14,403,365	\$ 14,014,700	\$ 61,889	\$ 64,949	\$ 14,465,254	\$ 14,079,649
Capital assets, net	52,442,931	54,144,542	-	-	52,442,931	54,144,542
Total assets	66,846,296	68,159,242	61,889	64,949	66,908,185	68,224,191
Deferred outflows of resources						
	23,000,828	23,018,504	-	-	23,000,828	23,018,504
Liabilities						
Current and other liabilities	76,867,924	73,716,626	-	3,280	76,867,924	73,719,906
Long-term debt	63,518,737	65,932,887	-	-	63,518,737	65,932,887
Total liabilities	140,386,661	139,649,513	-	3,280	140,386,661	139,652,793
Deferred outflows of resources						
	8,224,631	8,296,818	-	-	8,224,631	8,296,818
Net position						
Net investment in capital assets	(5,539,246)	(5,174,113)	-	-	(5,539,246)	(5,174,113)
Restricted	921,267	534,504	-	-	921,267	534,504
Unrestricted (deficit)	(54,146,189)	(52,128,976)	61,889	61,669	(54,084,300)	(52,067,307)
Total net position	\$ (58,764,168)	\$ (56,768,585)	\$ 61,889	\$ 61,669	\$ (58,702,279)	\$ (56,706,916)

ADRIAN PUBLIC SCHOOLS

Management's Discussion and Analysis

	Change in Net Position					
	Governmental Activities		Business-type Activities		Total	
	2020	2019	2020	2019	2020	2019
Program revenues:						
Charges for services	\$ 1,923,031	\$ 1,956,885	\$ 40,964	\$ 56,846	\$ 1,963,995	\$ 2,013,731
Operating grants and contributions	12,857,905	12,390,301	-	-	12,857,905	12,390,301
General revenues:						
Property taxes levied for general purposes	4,192,418	4,066,948	-	-	4,192,418	4,066,948
Property taxes levied for debt service	4,705,807	4,681,248	-	-	4,705,807	4,681,248
Grants and contributions not restricted for specific purposes	17,851,089	17,689,593	-	-	17,851,089	17,689,593
Unrestricted interest and investment earnings	129,292	115,922	779	391	130,071	116,313
Gain on sale of capital assets	24,202	-	-	-	24,202	-
Other	168,880	222,614	-	-	168,880	222,614
	<u>41,852,624</u>	<u>41,123,511</u>	<u>41,743</u>	<u>57,237</u>	<u>41,894,367</u>	<u>41,180,748</u>
Expenses:						
Instruction	22,388,004	21,252,425	-	-	22,388,004	21,252,425
Supporting services	13,414,291	13,475,160	-	-	13,414,291	13,475,160
Food service	1,770,093	1,658,408	-	-	1,770,093	1,658,408
Athletics	919,339	908,092	-	-	919,339	908,092
Community services	277,418	263,746	-	-	277,418	263,746
Interest on long-term debt	2,441,763	2,511,089	-	-	2,441,763	2,511,089
Other expenses	216,796	245,965	-	-	216,796	245,965
Unallocated depreciation	2,420,503	2,395,164	-	-	2,420,503	2,395,164
Catering	-	-	41,523	86,469	41,523	86,469
Total expenses	<u>43,848,207</u>	<u>42,710,049</u>	<u>41,523</u>	<u>86,469</u>	<u>43,889,730</u>	<u>42,796,518</u>
Change in net position	(1,995,583)	(1,586,538)	220	(29,232)	(1,995,363)	(1,615,770)
Net position:						
Beginning of year	<u>(56,768,585)</u>	<u>(55,182,047)</u>	<u>61,669</u>	<u>90,901</u>	<u>(56,706,916)</u>	<u>(55,091,146)</u>
End of year	<u><u>\$ (58,764,168)</u></u>	<u><u>\$ (56,768,585)</u></u>	<u><u>\$ 61,889</u></u>	<u><u>\$ 61,669</u></u>	<u><u>\$ (58,702,279)</u></u>	<u><u>\$ (56,706,916)</u></u>

Financial Analysis

Governmental Activities

Net position decreased \$1,995,583, compared to a \$1,586,538 decrease in the prior year. 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 COVID-19 related textbooks and supplies for at home learning.

Business-type Activities

Net position increased \$220, compared to a \$29,232 decrease in the prior year. This is primarily due to a reduction in capital expenditures and a reduction in the catering bonus paid to employees.

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, 2020, the District's general fund balance and 2016 capital projects fund balance were \$5,804,567 and \$2,831,900, respectively. The general fund balance increased from prior to current year by \$1,042,442, while the 2016 capital projects fund balance decreased from prior to current year by \$946,446. The significant increase in the general fund is related to the District shutdown due to COVID-19, while 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 \$9,014,220, 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

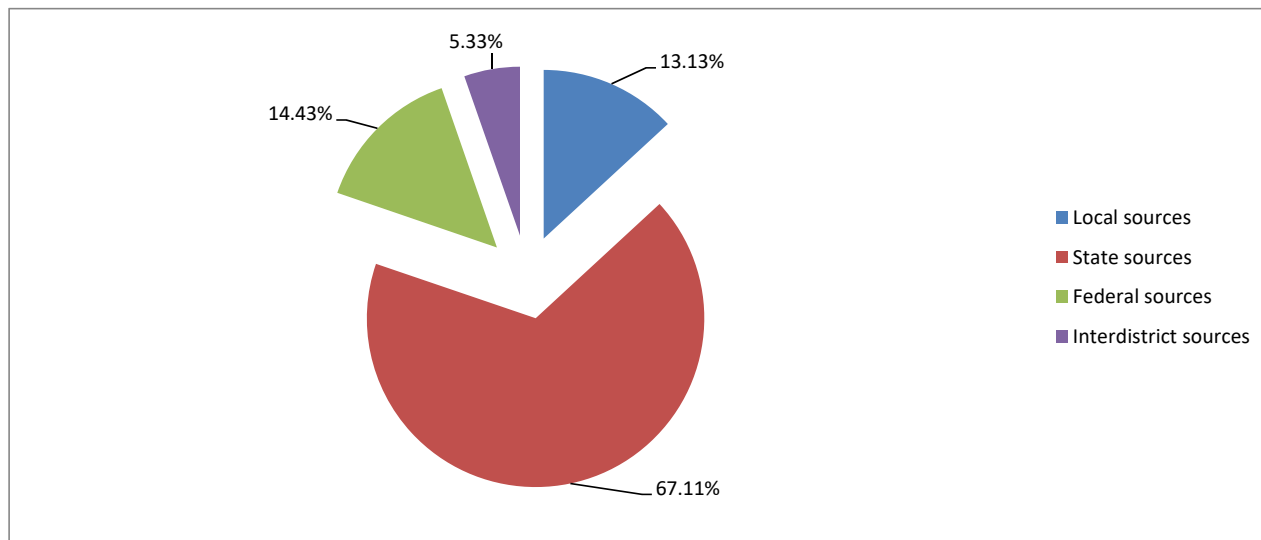
Since the enactment of Proposal A in 1994, the State of Michigan is the primary source of funds for the District (see the following chart). The State of Michigan provides schools with a foundation grant per student which is used for overall operations of the district. For 2019-2020 the District received \$8,111 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 property owners' education related taxes are transferred to the District. The total local taxes collected for 2019-2020 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 60 students per year. The blended enrollment for 2019-2020 was 2,859. Projections for 2020-2021 are estimated at 2,814. 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 2019 student count, 1,572 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 \$53,497 in 2020, 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 2019-2020. 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.

	2012-13	2013-14	2014-15	2015-16
Special Education Foundation grant	\$ 574,462	\$ 636,899	\$ 753,911	\$ 787,412
State categorical	200,194	185,276	190,544	194,556
LISD Act 18 funds	1,309,820	1,191,393	1,253,107	1,379,555
Medicaid FFS/Outreach	89,736	63,319	71,685	47,220
Total reimbursements	2,174,212	2,076,887	2,269,246	2,408,743
Total Special Education costs	2,430,525	2,525,622	2,561,639	2,671,361
Unreimbursed costs	\$ (256,313)	\$ (448,735)	\$ (292,393)	\$ (262,618)
Percentage reimbursement	89.5%	82.2%	88.6%	90.2%

	2016-17	2017-18	2018-19	2019-20
Special Education Foundation grant	\$ 791,909	\$ 759,239	\$ 756,908	\$ 797,150
State categorical	201,854	201,429	193,098	202,062
LISD Act 18 funds	1,272,550	1,378,066	1,336,318	1,589,099
Medicaid FFS/Outreach	55,260	91,318	96,041	99,123
Total reimbursements	2,321,573	2,430,052	2,382,365	2,687,434
Total Special Education costs	2,681,006	2,539,055	2,661,384	2,823,624
Unreimbursed costs	\$ (359,433)	\$ (109,003)	\$ (279,019)	\$ (136,190)
Percentage reimbursement	86.6%	95.7%	89.5%	95.2%

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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 (MPERS) for fiscal years 2020 and 2019 were set at 27.50% and 26.18%, 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 \$260,563 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 \$1,791,809 as compared with the prior year difference of \$217,326.

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 2019-2020 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 \$80,823,198 invested in capital assets, net of accumulated depreciation of \$28,380,267. Significant additions include a new high school robotics lab and parking lot expansion. Refer to footnote 5 for additional information regarding capital assets.

At the fiscal year ending June 30, 2020, the District's long-term debt obligations included \$402,782 in compensated absences including accrued vacation and sick pay leave, \$628,396 of early retirement incentives, \$24,615,000 from the 2016 bond project and \$30,165,000 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.

ADRIAN PUBLIC SCHOOLS

Management's Discussion and Analysis

Proprietary Fund

During the 2007-2008 fiscal year, a portion of the food service fund was branched off to a new fund, the Catering Fund. This fund is used to track activity that is business like in nature. Catering by the food service employees is done with the intention of earning a profit at the end of the year. This type of activity is more like the business sector, therefore, it is classified as a Proprietary Fund. Net position at the end of the year was \$61,889 which was an increase of \$220 compared to the prior year.

Internal Service Fund

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

Economic Factors

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

The budget for the year ended June 30, 2021 was adopted in June 2020 when there was a high degree of uncertainty related to the funding and operations for districts in the State of Michigan due to the novel coronavirus outbreak (COVID-19). Subsequent to year end, additional funding has been provided by the State of Michigan through various restricted federal grant programs. Despite this, there continues to be a high degree of uncertainty regarding potential changes to state and federal funding. In addition, the District is continuously evaluating the impacts of the pandemic as it determines the appropriate methods to deliver education to students in a safe environment. These factors will have a significant impact on the operational and financial performance of the District.

Contacting the District's Financial Management

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

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, 2020

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 5,167,909	\$ 52,405	\$ 5,220,314
Investments	3,772,558	-	3,772,558
Receivables	5,000,042	178	5,000,220
Other assets	462,856	9,306	472,162
Capital assets not being depreciated	77,634	-	77,634
Capital assets being depreciated, net	52,365,297	-	52,365,297
Total assets	66,846,296	61,889	66,908,185
Deferred outflows of resources			
Deferred charge on advance bond refunding	1,672,329	-	1,672,329
Deferred pension amounts	17,208,470	-	17,208,470
Deferred other postemployment benefit amounts	4,120,029	-	4,120,029
Total deferred outflows of resources	23,000,828	-	23,000,828
Liabilities			
Accounts payable and accrued liabilities	3,534,927	-	3,534,927
Unearned revenue	250,954	-	250,954
Long-term debt:			
Due within one year	2,983,571	-	2,983,571
Due in more than one year	60,535,166	-	60,535,166
Net pension liability (due in more than one year)	60,032,238	-	60,032,238
Net other postemployment benefits liability (due in more than one year)	13,049,805	-	13,049,805
Total liabilities	140,386,661	-	140,386,661
Deferred inflows of resources			
Deferred pension amounts	3,119,324	-	3,119,324
Deferred other postemployment benefit amounts	5,105,307	-	5,105,307
Total deferred inflows of resources	8,224,631	-	8,224,631
Net position			
Net investment in capital assets	(5,539,246)	-	(5,539,246)
Restricted for food service	711,066	-	711,066
Restricted for debt service	210,201	-	210,201
Unrestricted (deficit)	(54,146,189)	61,889	(54,084,300)
Total net position	\$ (58,764,168)	\$ 61,889	\$ (58,702,279)

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

ADRIAN PUBLIC SCHOOLS

Statement of Activities

For the Year Ended June 30, 2020

Functions / Programs	Expenses	Program Revenues		Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	
Governmental activities				
Instruction	\$ 22,388,004	\$ -	\$ 10,844,646	\$ (11,543,358)
Supporting services	13,414,291	1,871,276	117,069	(11,425,946)
Food service	1,770,093	51,755	1,896,190	177,852
Athletics	919,339	-	-	(919,339)
Community services	277,418	-	-	(277,418)
Interest on long-term debt	2,441,763	-	-	(2,441,763)
Other expenses	216,796	-	-	(216,796)
Unallocated depreciation	2,420,503	-	-	(2,420,503)
Total governmental activities	43,848,207	1,923,031	12,857,905	(29,067,271)
Business-type activities				
Catering	41,523	40,964	-	(559)
Total	\$ 43,889,730	\$ 1,963,995	\$ 12,857,905	\$ (29,067,830)

continued...

ADRIAN PUBLIC SCHOOLS

Statement of Activities

For the Year Ended June 30, 2020

	Governmental Activities	Business-type Activities	Total
Changes in net position			
Net expense	\$ (29,067,271)	\$ (559)	\$ (29,067,830)
General revenues:			
Property taxes levied for general purposes	4,192,418	-	4,192,418
Property taxes levied for debt service	4,705,807	-	4,705,807
Grants and contributions not restricted for specific purposes	17,851,089	-	17,851,089
Unrestricted interest and investment earnings	129,292	779	130,071
Gain on sale of capital assets	24,202	-	24,202
Other	168,880	-	168,880
Total general revenues	27,071,688	779	27,072,467
Change in net position	(1,995,583)	220	(1,995,363)
Net position, beginning of year	(56,768,585)	61,669	(56,706,916)
Net position, end of year	\$ (58,764,168)	\$ 61,889	\$ (58,702,279)

concluded.

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

ADRIAN PUBLIC SCHOOLS

Balance Sheet

Governmental Funds

June 30, 2020

	General	2016 Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
Assets				
Cash and cash equivalents	\$ 3,144,091	\$ -	\$ 1,987,342	\$ 5,131,433
Investments	540,604	2,922,081	309,873	3,772,558
Accounts receivable	90,128	-	-	90,128
Due from other governments	4,791,068	-	118,846	4,909,914
Inventory	-	-	14,027	14,027
Prepays	448,329	-	500	448,829
Total assets	\$ 9,014,220	\$ 2,922,081	\$ 2,430,588	\$ 14,366,889
Liabilities				
Accounts payable	\$ 158,131	\$ 90,181	\$ 18,057	\$ 266,369
Accrued payroll	2,003,295	-	5,236	2,008,531
Other liabilities	797,273	-	13,140	810,413
Unearned revenue	250,954	-	-	250,954
Total liabilities	3,209,653	90,181	36,433	3,336,267
Fund balances				
Nonspendable:				
Inventory	-	-	14,027	14,027
Prepays	448,329	-	500	448,829
Restricted:				
Food service	-	-	697,039	697,039
Debt service	-	-	655,434	655,434
Capital projects and technology	-	2,831,900	-	2,831,900
Capital projects Maple Stadium	-	-	1,153	1,153
Assigned:				
Sick leave	383,830	-	-	383,830
Retiree health and early retirement incentive	33,742	-	-	33,742
Capital projects	-	-	1,026,002	1,026,002
Unassigned	4,938,666	-	-	4,938,666
Total fund balances	5,804,567	2,831,900	2,394,155	11,030,622
Total liabilities and fund balances	\$ 9,014,220	\$ 2,922,081	\$ 2,430,588	\$ 14,366,889

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, 2020

Fund balances - total governmental funds	\$ 11,030,622
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	77,634
Capital assets being depreciated, net	52,365,297
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.	32,595
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	(54,780,000)
Premium on bonds payable	(7,707,559)
Accrued interest on bonds payable	(445,733)
Deferred charge on advance bond refunding	1,672,329
Compensated absences and early retirement incentive	(1,031,178)
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	(60,032,238)
Deferred outflows related to the net pension liability	17,208,470
Deferred inflows related to the net pension liability	(3,119,324)
Net other postemployment benefit liability	(13,049,805)
Deferred outflows related to the net other postemployment benefit liability	4,120,029
Deferred inflows related to the net other postemployment benefit liability	(5,105,307)
Net position of governmental activities	<u>\$ (58,764,168)</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, 2020

	General	2016 Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
Revenues				
Local sources	\$ 4,575,568	\$ 99,263	\$ 4,796,688	\$ 9,471,519
State sources	23,381,866	-	253,683	23,635,549
Federal sources	5,026,291	-	1,835,390	6,861,681
Interdistrict sources	1,857,811	-	-	1,857,811
Other sources	-	-	1,862	1,862
Total revenues	34,841,536	99,263	6,887,623	41,828,422
Expenditures				
Current:				
Instruction	20,230,288	-	-	20,230,288
Supporting services	12,360,136	-	-	12,360,136
Food service	-	-	1,675,494	1,675,494
Athletics	845,651	-	-	845,651
Community services	260,864	-	-	260,864
Other expenditures	-	94,985	121,811	216,796
Debt service:				
Principal	-	-	1,980,000	1,980,000
Interest and fiscal charges	-	-	2,760,350	2,760,350
Capital outlay	-	950,724	2,225	952,949
Total expenditures	33,696,939	1,045,709	6,539,880	41,282,528
Revenues over (under) expenditures	1,144,597	(946,446)	347,743	545,894
Other financing sources (uses)				
Proceeds from sale of capital assets	10,100	-	14,927	25,027
Transfers in	90,000	-	202,255	292,255
Transfers out	(202,255)	-	(90,000)	(292,255)
Total other financing sources (uses)	(102,155)	-	127,182	25,027
Net change in fund balances	1,042,442	(946,446)	474,925	570,921
Fund balances, beginning of year	4,762,125	3,778,346	1,919,230	10,459,701
Fund balances, end of year	\$ 5,804,567	\$ 2,831,900	\$ 2,394,155	\$ 11,030,622

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, 2020

Net change in fund balances - total governmental funds	\$ 570,921
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	719,717
Depreciation expense	(2,420,503)
Proceeds from sale of capital assets	(25,027)
Gain on sale/disposal of capital assets	24,202
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	1,980,000
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	13,992
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	10,103
Change in the net pension liability and related deferred amounts	(4,077,830)
Change in the net other postemployment benefit liability and related deferred amounts	906,893
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>(2,646)</u>
Change in net position of governmental activities	<u><u>\$ (1,995,583)</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, 2020

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues				
Local sources	\$ 4,615,692	\$ 4,660,693	\$ 4,575,568	\$ (85,125)
State sources	22,831,416	22,061,156	23,381,866	1,320,710
Federal sources	5,081,599	5,286,854	5,026,291	(260,563)
Interdistrict sources	1,582,457	1,874,887	1,857,811	(17,076)
Total revenues	34,111,164	33,883,591	34,841,536	957,945
Expenditures				
Instruction:				
Basic programs	15,151,884	15,713,905	15,557,496	(156,409)
Added needs	4,776,135	4,742,374	4,542,248	(200,126)
Adult and continuing education	132,405	139,640	130,544	(9,096)
	<u>20,060,424</u>	<u>20,595,919</u>	<u>20,230,288</u>	<u>(365,631)</u>
Supporting services:				
Pupil services	2,160,766	2,435,834	2,375,749	(60,085)
Instructional staff	1,845,400	1,903,379	1,768,503	(134,876)
General administration	740,722	771,590	763,975	(7,615)
School administration	2,103,631	2,186,742	2,160,856	(25,886)
Business office	822,196	477,457	528,154	50,697
Operations and maintenance	2,960,237	2,870,602	2,785,693	(84,909)
Pupil transportation	1,497,159	1,467,000	1,319,937	(147,063)
Central services	692,057	666,620	657,269	(9,351)
	<u>12,822,168</u>	<u>12,779,223</u>	<u>12,360,136</u>	<u>(419,087)</u>
Athletics	<u>984,656</u>	<u>898,210</u>	<u>845,651</u>	<u>(52,559)</u>
Community services	<u>332,711</u>	<u>255,206</u>	<u>260,864</u>	<u>5,658</u>
Total expenditures	34,199,959	34,528,558	33,696,939	(831,619)

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ADRIAN PUBLIC SCHOOLS

Statement of Revenues, Expenditures and Changes in Fund Balance

Budget and Actual - General Fund

For the Year Ended June 30, 2020

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues over (under) expenditures	\$ (88,795)	\$ (644,967)	\$ 1,144,597	\$ 1,789,564
Other financing sources (uses)				
Proceeds from sale of capital assets	-	8,600	10,100	1,500
Transfers in	90,000	90,000	90,000	-
Transfers out	(200,082)	(203,000)	(202,255)	745
Total other financing uses	(110,082)	(104,400)	(102,155)	2,245
Net change in fund balance	(198,877)	(749,367)	1,042,442	1,791,809
Fund balance, beginning of year	4,762,125	4,762,125	4,762,125	-
Fund balance, end of year	\$ 4,563,248	\$ 4,012,758	\$ 5,804,567	\$ 1,791,809

concluded.

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

ADRIAN PUBLIC SCHOOLS

Statement of Net Position

Proprietary Funds

June 30, 2020

	Enterprise Fund	Governmental Activities
	Catering Fund	Internal Service Fund
Assets		
Current assets:		
Cash and cash equivalents	\$ 52,405	\$ 36,476
Accounts receivable	178	-
Inventory	2,145	-
Prepays	7,161	-
	<hr/>	<hr/>
Total assets	61,889	36,476
	<hr/>	<hr/>
Liabilities		
Current liabilities:		
Accounts payable	-	1,189
Other liabilities	-	2,692
	<hr/>	<hr/>
Total liabilities	-	3,881
	<hr/>	<hr/>
Net position, unrestricted	\$ 61,889	\$ 32,595
	<hr/> <hr/>	<hr/> <hr/>

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

ADRIAN PUBLIC SCHOOLS

Statement of Revenues, Expenses and Changes in Fund Net Position

Proprietary Funds

For the Year Ended June 30, 2020

	Enterprise Fund	Governmental Activities
	Catering Fund	Internal Service Fund
Operating revenues		
Charges for services	\$ 40,964	\$ 421
Operating expenses		
Salaries	15,649	-
Employee benefits	6,941	-
Contracted services	733	-
Supplies	18,165	-
Office expense	35	-
Supporting services	-	3,067
Total operating expenses	41,523	3,067
Operating loss	(559)	(2,646)
Nonoperating revenue		
Interest income	779	-
Change in net position	220	(2,646)
Net position, beginning of year	61,669	35,241
Net position, end of year	\$ 61,889	\$ 32,595

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, 2020

	Enterprise Fund	Governmental Activities
	Catering Fund	Internal Service Fund
Cash flows from operating activities		
Cash received from customers and others	\$ 40,564	\$ 421
Cash payments to employees	(23,535)	-
Cash payments to suppliers for goods and services	(28,429)	(1,205)
	<u>(11,400)</u>	<u>(784)</u>
Net cash used in operating activities	(11,400)	(784)
Cash flows provided by investing activities		
Interest received	779	-
	<u>779</u>	<u>-</u>
Net change in cash and cash equivalents	(10,621)	(784)
Cash and cash equivalents, beginning of year	63,026	37,260
	<u>63,026</u>	<u>37,260</u>
Cash and cash equivalents, end of year	<u>\$ 52,405</u>	<u>\$ 36,476</u>
Reconciliation of operating loss to net cash used in operating activities		
Operating loss	\$ (559)	\$ (2,646)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Changes in assets and liabilities:		
Accounts receivable	577	-
Inventory	(977)	-
Prepays	(7,161)	-
Accounts payable	(2,335)	(16)
Other liabilities	(945)	1,878
	<u>(945)</u>	<u>1,878</u>
Net cash used in operating activities	<u>\$ (11,400)</u>	<u>\$ (784)</u>

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

ADRIAN PUBLIC SCHOOLS

Statement of Fiduciary Net Position

Fiduciary Funds

June 30, 2020

	Private- Purpose Trust Fund	
	Scholarships	Agency Fund
Assets		
Cash and cash equivalents	\$ 19,504	\$ 253,929
Liabilities		
Due to student groups	-	\$ 253,929
Net position		
Restricted for scholarships	\$ 19,504	

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, 2020

	Private- Purpose Trust Funds
	Scholarships
Additions	
Contributions:	
Bridleman Scholarship	\$ 9,000
Jeff Marvin	1,800
Superintendents Scholarship	1,500
Ralphie McDaid Scholarship	2,000
Patmos Scholarship	2,500
	<hr/>
Total contributions	16,800
	<hr/>
Deductions	
Scholarships:	
Michener Scholarship	5
Bridleman Scholarship	8,000
Jeff Marvin Scholarship	2,500
Superintendents Scholarship	1,511
Ralphie McDaid Scholarship	1,000
Patmos Scholarship	2,500
	<hr/>
Total scholarships	15,516
	<hr/>
Change in net position	1,284
Net position, beginning of year	18,220
	<hr/>
Net position, end of year	\$ 19,504
	<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 (MLAF) 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:			
Business office	\$ 477,457	\$ 528,154	\$ 50,697
Community services	255,206	260,864	5,658

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	\$ 5,220,314
Investments	<u>3,772,558</u>
	8,992,872
Statement of Fiduciary Net Position	
Fiduciary funds -	
Cash and cash equivalents	<u>273,433</u>
Total	<u><u>\$ 9,266,305</u></u>
Deposits and investments	
Bank deposits -	
Checking and savings accounts	\$ 5,493,707
Investments	3,772,558
Cash on hand	<u>40</u>
Total	<u><u>\$ 9,266,305</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.

ADRIAN PUBLIC SCHOOLS

Notes to Financial Statements

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

Investments

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

Investment	Maturity	Amortized Cost / Fair Value	Rating
Michigan CLASS government investment pool	n/a	\$ 849,324	S&P - AAAM
Michigan Liquid Asset Fund (MILAF) Portfolio	n/a	<u>2,923,234</u>	S&P - AAAM
		<u>\$ 3,772,558</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, \$5,379,902 of the District's bank balance of \$5,629,902 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 \$849,324. 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	\$ 90,128	\$ 178	\$ 90,306
Due from other governments	4,909,914	-	4,909,914
	<u>\$ 5,000,042</u>	<u>\$ 178</u>	<u>\$ 5,000,220</u>

ADRIAN PUBLIC SCHOOLS

Notes to Financial Statements

5. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2020 was as follows:

	Beginning Balance	Additions	Deletions	Transfers	Ending Balance
Capital assets not being depreciated:					
Construction in progress	\$ 91,227	\$ 77,634	\$ -	\$ (91,227)	\$ 77,634
Capital assets being depreciated:					
Land improvements	2,375,126	125,575	-	3,900	2,504,601
Buildings and improvements	68,677,135	325,744	-	87,327	69,090,206
Furniture and equipment	8,710,667	190,764	(69,923)		8,831,508
Licensed vehicles	323,249	-	(4,000)		319,249
	<u>80,086,177</u>	<u>642,083</u>	<u>(73,923)</u>	<u>91,227</u>	<u>80,745,564</u>
Less accumulated depreciation for:					
Land improvements	(447,607)	(212,364)	-		(659,971)
Buildings and improvements	(23,246,191)	(1,604,648)	-		(24,850,839)
Furniture and equipment	(2,107,973)	(576,820)	69,098		(2,615,695)
Licensed vehicles	(231,091)	(26,671)	4,000		(253,762)
	<u>(26,032,862)</u>	<u>(2,420,503)</u>	<u>73,098</u>	<u>-</u>	<u>(28,380,267)</u>
Total capital assets being depreciated, net	<u>54,053,315</u>	<u>(1,778,420)</u>	<u>(825)</u>	<u>91,227</u>	<u>52,365,297</u>
Governmental activities capital assets, net	<u>\$ 54,144,542</u>	<u>\$ (1,700,786)</u>	<u>\$ (825)</u>	<u>\$ -</u>	<u>\$ 52,442,931</u>

Depreciation expense of \$2,420,503 was not allocated to specific functions and is reported as "unallocated depreciation" on the statement of activities.

At June 30, 2020, the District had outstanding construction commitments under construction contracts of approximately \$654,000.

ADRIAN PUBLIC SCHOOLS

Notes to Financial Statements

6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities are comprised of the following:

	Governmental Activities
Fund Financial Statements:	
Accounts payable	\$ 267,558
Accrued payroll	2,008,531
Other liabilities	813,105
	<u>3,089,194</u>
Government-wide Financial Statements:	
Accrued interest on long-term debt	<u>445,733</u>
	<u>\$ 3,534,927</u>

7. TRANSFERS

For the year ending June 30, 2020, interfund transfers consisted of the following:

	Transfers In	Transfers Out
General fund	\$ 90,000	\$ 202,255
Nonmajor governmental funds	<u>202,255</u>	<u>90,000</u>
	<u>\$ 292,255</u>	<u>\$ 292,255</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, 2020, 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%	\$ 24,615,000
2017 Refunding Bonds, due in annual installments of \$440,000 to \$1,605,000 through 2034, interest at 4.0% to 5.0%	<u>30,165,000</u>
	<u>\$ 54,780,000</u>

Changes in Long-term Debt. Long-term liability activity for the year ended June 30, 2020 was as follows:

	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
Governmental Activities					
General obligation bonds:					
2016 bonds	\$ 25,090,000	\$ -	\$ 475,000	\$ 24,615,000	\$ 505,000
2017 refunding bonds	31,670,000	-	1,505,000	30,165,000	1,560,000
Total general obligation bonds	56,760,000	-	1,980,000	54,780,000	2,065,000
Bond premium	8,131,606	-	424,047	7,707,559	424,047
Compensated absences	310,292	918,114	825,624	402,782	402,782
Early retirement incentive	730,989	972	103,565	628,396	91,742
Total	<u>\$ 65,932,887</u>	<u>\$ 919,086</u>	<u>\$ 3,333,236</u>	<u>\$ 63,518,737</u>	<u>\$ 2,983,571</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
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	2,435,000	2,301,000	4,736,000
2026-2030	14,135,000	9,551,500	23,686,500
2031-2035	15,045,000	5,646,000	20,691,000
2036-2040	5,635,000	3,065,250	8,700,250
2041-2045	7,165,000	1,509,750	8,674,750
2046	1,605,000	80,250	1,685,250
Totals	<u>\$ 54,780,000</u>	<u>\$ 32,343,250</u>	<u>\$ 87,123,250</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
2021	\$ 102,120
2022	102,120
2023	<u>24,758</u>
Total	<u>\$ 228,998</u>

Rental expense for the year ended June 30, 2020 was \$102,120.

10. NET INVESTMENT IN CAPITAL ASSETS

As of June 30, 2020, net investment in capital assets was comprised of the following:

Invested in capital assets	
Capital assets not being depreciated	\$ 77,634
Capital assets being depreciated, net	52,365,297
General obligation bonds	(54,780,000)
Bond premium	(7,707,559)
Deferred charge on refunding	1,672,329
Unexpended bond proceeds	<u>2,833,053</u>
Net investment in capital assets	<u>\$ (5,539,246)</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 2020 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 \$11,126 in reduced District tax revenues for 2020.

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.

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.

ADRIAN PUBLIC SCHOOLS

Notes to Financial Statements

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

The table below summarizes pension contribution rates in effect for fiscal year 2020:

Benefit Structure	Member Rates	Employer Rates
Basic	0.00% - 4.00%	18.25% - 19.41%
Member Investment Plan (MIP)	3.00% - 7.00%	18.25% - 19.41%
Pension Plus	3.00% - 6.40%	16.46%
Pension Plus 2	6.20%	19.59%
Defined Contribution	0.00%	13.39%

For the year ended June 30, 2020, required and actual contributions from the District to the pension plan were \$4,955,097, which included \$2,000,376, the amount received from the State and remitted to the System to fund the MPSERS unfunded actuarial accrued liability ("UAAL") stabilization rate.

ADRIAN PUBLIC SCHOOLS

Notes to Financial Statements

The table below summarizes OPEB contribution rates in effect for fiscal year 2020:

Benefit Structure	Member Rates	Employer Rates
Premium Subsidy	3.00%	7.93% - 8.09%
Personal Healthcare Fund (PHF)	0.00%	7.57%

For the year ended June 30, 2020, required and actual contributions from the District to the OPEB plan were \$1,276,762.

The table below summarizes defined contribution rates in effect for fiscal year 2020:

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, 2020, required and actual contributions from the District for those members with a defined contribution benefit were \$185,272.

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

At June 30, 2020, the District reported a liability of \$60,032,238 for its proportionate share of the MPSERS net pension liability. The net pension liability was measured as of September 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 2018. The District’s proportion of the net pension liability was determined by dividing each employer’s statutorily required pension contributions to the system during the measurement period by the percent of pension contributions required from all applicable employers during the measurement period. At September 30, 2019, the District’s proportion was 0.18128%, which was a decrease of 0.00243% from its proportion measured as of September 30, 2018.

ADRIAN PUBLIC SCHOOLS

Notes to Financial Statements

For the year ended June 30, 2020, the District recognized pension expense of \$8,986,869. At June 30, 2020, 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	\$ 269,084	\$ 250,329	\$ 18,755
Changes in assumptions	11,754,354	-	11,754,354
Net difference between projected and actual earnings on pension plan investments	-	1,923,931	(1,923,931)
Changes in proportion and differences between employer contributions and proportionate share of contributions	533,383	945,064	(411,681)
	<u>12,556,821</u>	<u>3,119,324</u>	<u>9,437,497</u>
District contributions subsequent to the measurement date	4,651,649	-	4,651,649
	<u>4,651,649</u>	<u>-</u>	<u>4,651,649</u>
Total	<u>\$ 17,208,470</u>	<u>\$ 3,119,324</u>	<u>\$ 14,089,146</u>

The \$4,651,649 reported as deferred outflows of resources related to pensions resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2021. 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
2021	\$ 3,653,308
2022	3,067,935
2023	1,979,108
2024	<u>737,146</u>
Total	<u>\$ 9,437,497</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, 2020, the District reported a liability of \$13,049,805 for its proportionate share of the MPSERS net OPEB liability. The net OPEB liability was measured as of September 30, 2019, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation rolled forward from September 2018. The District's proportion of the net OPEB liability was determined by dividing each employer's statutorily required OPEB contributions to the system during the measurement period by the percent of OPEB contributions required from all applicable employers during the measurement period. At September 30, 2019, the District's proportion was 0.18181% which was a decrease of 0.00075% from its proportion measured as of September 30, 2018.

For the year ended June 30, 2020, the District recognized OPEB expense of \$355,462. At June 30, 2020, 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	\$ -	\$ 4,788,342	\$ (4,788,342)
Changes in assumptions	2,827,629	-	2,827,629
Net difference between projected and actual earnings on OPEB plan investments	-	226,942	(226,942)
Changes in proportion and differences between employer contributions and proportionate share of contributions	152,700	90,023	62,677
	<u>2,980,329</u>	<u>5,105,307</u>	<u>(2,124,978)</u>
District contributions subsequent to the measurement date	1,139,700	-	1,139,700
Total	<u>\$ 4,120,029</u>	<u>\$ 5,105,307</u>	<u>\$ (985,278)</u>

ADRIAN PUBLIC SCHOOLS

Notes to Financial Statements

The \$1,139,700 reported as deferred outflows of resources related to OPEB resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ended June 30,	Amount
2021	\$ (585,853)
2022	(585,853)
2023	(470,929)
2024	(310,135)
2025	<u>(172,208)</u>
Total	<u>\$ (2,124,978)</u>

Actuarial Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. The total pension and OPEB liabilities in the September 30, 2018 actuarial valuation were determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial cost method	Entry age, normal
Wage inflation rate	2.75%
Investment rate of return:	
MIP and Basic plans (non-hybrid)	6.80%
Pension Plus plan (hybrid)	6.80%
Pension Plus 2 plan (hybrid)	6.00%
OPEB plans	6.95%
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 3.5% Year 12
Mortality	RP-2014 Male and Female Employee Annuitant Mortality Tables, adjusted for mortality improvements using projection scale MP-2017 from 2006. For retirees, the tables were scaled by 82% for males and 78% for females. For active members, 100% of the table rates were used for both males and females

ADRIAN PUBLIC SCHOOLS

Notes to Financial Statements

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 and OPEB valuations beginning with the September 30, 2017 valuation. The total pension and OPEB liabilities as of September 30, 2019, are based on the results of an actuarial valuation date of September 30, 2018, and rolled forward using generally accepted actuarial procedures, including the experience study. The recognition period for pension liabilities is 4.4977 years which is the average of the expected remaining service lives of all employees. The recognition period for OPEB liabilities is 5.7101 years which is the average of the expected remaining service lives of all employees. The recognition period for assets is 5 years.

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, 2019, 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%	5.50%	1.54%
Private equity pools	18.00%	8.60%	1.55%
International equity pools	16.00%	7.30%	1.17%
Fixed income pools	10.50%	1.20%	0.13%
Real estate and infrastructure pools	10.00%	4.20%	0.42%
Absolute return pools	15.50%	5.40%	0.84%
Short-term investment pools	2.00%	0.08%	0.00%
	<u>100.00%</u>		5.65%
Inflation			2.30%
Risk adjustment			<u>-1.15%</u>
Investment rate of return			<u>6.80%</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, 2019, 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%	5.50%	1.54%
Private equity pools	18.00%	8.60%	1.55%
International equity pools	16.00%	7.30%	1.17%
Fixed income pools	10.50%	1.20%	0.13%
Real estate and infrastructure pools	10.00%	4.20%	0.42%
Absolute return pools	15.50%	5.40%	0.84%
Short-term investment pools	2.00%	0.08%	0.00%
	<u>100.00%</u>		5.65%
Inflation			2.30%
Risk adjustment			<u>-1.00%</u>
Investment rate of return			<u>6.95%</u>

Rate of Return

For the fiscal year ended September 30, 2019, the annual money-weighted rate of return on pension and OPEB plan investments, net of pension and OPEB plan investment expense, was 5.14% and 5.37%, respectively. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

ADRIAN PUBLIC SCHOOLS

Notes to Financial Statements

Discount Rate

A discount rate of 6.80% was used to measure the total pension liability (6.80% for the Pension Plus plan, 6.00% for the Pension Plus 2 plan, both of which are hybrid plans provided through non-university employers only) and a discount rate of 6.95% was used to measure the total OPEB liability. This discount rate was based on the long-term expected rate of return on pension and OPEB plan investments of 6.80% (6.80% for the Pension Plus plan, 6.00% for the Pension Plus 2 plan) and 6.95%, 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.

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

The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 6.80% (6.80% 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 point higher:

	1% Decrease (5.80% / 5.80% / 5.00%)	Current Discount Rate (6.80% / 6.80% / 6.00%)	1% Increase (7.80% / 7.80% / 7.00%)
District's proportionate share of the net pension liability	\$ 78,045,750	\$ 60,032,238	\$ 45,098,416

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

The following presents the District's proportionate share of the net OPEB liability calculated using the discount rate of 6.95%, as well as what the District's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher:

	1% Decrease (5.95%)	Current Discount Rate (6.95%)	1% Increase (7.95%)
District's proportionate share of the net OPEB liability	\$ 16,007,547	\$ 13,049,805	\$ 10,566,123

ADRIAN PUBLIC SCHOOLS

Notes to Financial Statements

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

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

	1% Decrease (6.50%)	Current Healthcare Cost Trend Rate (7.50%)	1% Increase (8.50%)
District's proportionate share of the net OPEB liability	\$ 10,460,826	\$ 13,049,805	\$ 16,007,196

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, 2020, the District reported a payable of \$654,924 for the outstanding amount of pension contributions to the Plan required for the year ended June 30, 2020.

Payable to the OPEB Plan

At June 30, 2020, the District reported a payable of \$121,311 for the outstanding amount of OPEB contributions to the Plan required for the year ended June 30, 2020.

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.

ADRIAN PUBLIC SCHOOLS

Notes to Financial Statements

16. CORONAVIRUS (COVID-19)

In March 2020, the World Health Organization declared the novel coronavirus outbreak (COVID-19) to be a global pandemic. The extent of the ultimate impact of the pandemic on the District's operational and financial performance will depend on various developments, including the duration and spread of the outbreak and its impact on employees, vendors, and taxpayers, all of which cannot be reasonably predicted at this time. In addition, it will continue to place additional demands on the District as it determines the appropriate methods to deliver education to students in a safe environment. While management reasonably expects the COVID-19 outbreak to negatively impact the District's financial position, changes in financial position, and, where applicable, the timing and amounts of cash flows, the related financial consequences and duration are highly uncertain.



REQUIRED SUPPLEMENTARY INFORMATION

ADRIAN PUBLIC SCHOOLS

Required Supplementary Information

MPSERS Cost-Sharing Multiple-Employer Plan

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

	Year Ended June 30,		
	2020	2019	2018
District's proportionate share of the net pension liability	\$ 60,032,238	\$ 55,225,604	\$ 46,584,326
District's proportion of the net pension liability	0.18128%	0.18371%	0.17976%
District's covered payroll	\$ 15,873,331	\$ 15,528,343	\$ 14,976,852
District's proportionate share of the net pension liability as a percentage of its covered payroll	378.20%	355.64%	311.04%
Plan fiduciary net position as a percentage of the total pension liability	60.31%	62.36%	64.21%

See notes to required supplementary information.



Year Ended June 30,		
2017	2016	2015
\$ 45,627,116	\$ 45,627,116	\$ 40,919,498
0.18288%	0.18680%	0.18577%
\$ 15,339,854	\$ 16,275,763	\$ 16,877,379
297.44%	280.34%	242.45%
63.27%	63.17%	66.20%

ADRIAN PUBLIC SCHOOLS

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

	Year Ended June 30,		
	2020	2019	2018
Statutorily required contribution	\$ 4,955,097	\$ 4,817,730	\$ 5,021,894
Contributions in relation to the statutorily required contribution	<u>(4,955,097)</u>	<u>(4,817,730)</u>	<u>(5,021,894)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	\$ 16,026,922	\$ 15,851,079	\$ 15,467,012
Contributions as a percentage of covered payroll	30.92%	30.39%	32.47%

See notes to required supplementary information.



Year Ended June 30,		
2017	2016	2015
\$ 4,352,093	\$ 4,208,554	\$ 3,534,836
<u>(4,352,093)</u>	<u>(4,208,554)</u>	<u>(3,534,836)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 15,711,618	\$ 16,020,133	\$ 16,051,771
27.70%	26.27%	22.02%

ADRIAN PUBLIC SCHOOLS

Required Supplementary Information

MPSERS Cost-Sharing Multiple-Employer Plan

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

	Year Ended June 30,		
	2020	2019	2018
District's proportionate share of the net OPEB liability	\$ 13,049,805	\$ 14,511,539	\$ 15,936,749
District's proportion of the net OPEB liability	0.18181%	0.18256%	0.17997%
District's covered payroll	\$ 15,873,331	\$ 15,528,343	\$ 14,976,852
District's proportionate share of the net OPEB liability as a percentage of its covered payroll	82.21%	93.45%	106.41%
Plan fiduciary net position as a percentage of the total OPEB liability	48.46%	42.95%	36.39%

See notes to required supplementary information.

ADRIAN PUBLIC SCHOOLS

Required Supplementary Information MPSERS Cost-Sharing Multiple-Employer Plan Schedule of the District's Other Postemployment Benefit Contributions

	Year Ended June 30,		
	2020	2019	2018
Statutorily required contribution	\$ 1,276,762	\$ 1,243,075	\$ 1,150,372
Contributions in relation to the statutorily required contribution	<u>(1,276,762)</u>	<u>(1,243,075)</u>	<u>(1,150,372)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	\$ 16,026,922	\$ 15,851,079	\$ 15,467,012
Contributions as a percentage of covered payroll	7.97%	7.84%	7.44%

See notes to required supplementary information.

ADRIAN PUBLIC SCHOOLS

Notes to Required Supplementary Information

Pension Information

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

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

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

- 2020 - The discount rate used in the September 30, 2018 actuarial valuation decreased to 6.80% for the MIP and Basic plans, 6.80% for the Pension Plus Plan, and 6.00% for the Pension Plus 2 Plan.
- 2019 - The discount rate used in the September 30, 2017 actuarial valuation decreased to 7.05% for the MIP and Basic plans, 7.00% for the Pension Plus plan, and 6.00% for the Pension Plus 2 plan.
- 2018 - The discount rate used in the September 30, 2016 actuarial valuation decreased to 7.50% for the MIP and Basic plans and 7.00% for the Pension Plus plan.

OPEB Information

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

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

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

- 2020 - The discount rate used in the September 30, 2018 actuarial valuation decreased to 6.95%.
- 2019 - The discount rate used in the September 30, 2017 actuarial valuation decreased to 7.15%.

**COMBINING FUND FINANCIAL
STATEMENTS**

ADRIAN PUBLIC SCHOOLS

Combining Balance Sheet

Nonmajor Governmental Funds

June 30, 2020

	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	\$ 378,675	\$ 230,168	\$ 344,262	\$ 1,034,237	\$ -	\$ 1,987,342
Investments	227,716	-	81,004	-	1,153	309,873
Due from other governments	118,846	-	-	-	-	118,846
Inventory	14,027	-	-	-	-	14,027
Prepays	-	500	-	-	-	500
Total assets	\$ 739,264	\$ 230,668	\$ 425,266	\$ 1,034,237	\$ 1,153	\$ 2,430,588
Liabilities						
Accounts payable	\$ 9,822	\$ -	\$ -	\$ 8,235	\$ -	\$ 18,057
Accrued payroll	5,236	-	-	-	-	5,236
Other liabilities	13,140	-	-	-	-	13,140
Total liabilities	28,198	-	-	8,235	-	36,433
Fund balances						
Nonspendable	14,027	500	-	-	-	14,527
Restricted	697,039	230,168	425,266	-	1,153	1,353,626
Assigned	-	-	-	1,026,002	-	1,026,002
Total fund balances	711,066	230,668	425,266	1,026,002	1,153	2,394,155
Total liabilities and fund balances	\$ 739,264	\$ 230,668	\$ 425,266	\$ 1,034,237	\$ 1,153	\$ 2,430,588

ADRIAN PUBLIC SCHOOLS

Combining Statement of Revenues, Expenditures and Changes in Fund Balances
 Nonmajor Governmental Funds
 For the Year Ended June 30, 2020

	Special Revenue	Debt Service		Capital Projects		Total
	Food Service	2016 Debt	2017 Debt Refunding	Capital Projects and Technology	Maple Stadium	
Revenues						
Local sources	\$ 57,445	\$ 1,797,265	\$ 2,930,940	\$ 10,959	\$ 79	\$ 4,796,688
State sources	60,800	-	192,883	-	-	253,683
Federal sources	1,835,390	-	-	-	-	1,835,390
Other sources	1,862	-	-	-	-	1,862
Total revenues	1,955,497	1,797,265	3,123,823	10,959	79	6,887,623
Expenditures						
Current:						
Food service	1,675,494	-	-	-	-	1,675,494
Other expenditures	-	-	475	119,586	1,750	121,811
Debt service:						
Principal	-	475,000	1,505,000	-	-	1,980,000
Interest and fiscal charges	-	1,239,600	1,520,750	-	-	2,760,350
Capital outlay	-	-	-	2,225	-	2,225
Total expenditures	1,675,494	1,714,600	3,026,225	121,811	1,750	6,539,880
Revenues over (under) expenditures	280,003	82,665	97,598	(110,852)	(1,671)	347,743
Other financing sources (uses)						
Proceeds from sale of capital assets	250	-	-	14,677	-	14,927
Transfers in	2,255	-	-	200,000	-	202,255
Transfers out	(90,000)	-	-	-	-	(90,000)
Total other financing sources (uses)	(87,495)	-	-	214,677	-	127,182
Net change in fund balances	192,508	82,665	97,598	103,825	(1,671)	474,925
Fund balances, beginning of year	518,558	148,003	327,668	922,177	2,824	1,919,230
Fund balances, end of year	\$ 711,066	\$ 230,668	\$ 425,266	\$ 1,026,002	\$ 1,153	\$ 2,394,155

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SINGLE AUDIT ACT COMPLIANCE

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

October 21, 2020

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, 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements. We issued our report thereon dated October 21, 2020, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by 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, 2020

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	191970
National School Lunch Breakfast	10.553	MDE	201970
Entitlement (non-cash)	10.555	MDE	-n/a-
National School Lunch	10.555	MDE	191960/191980
National School Lunch	10.555	MDE	201960/201980
COVID-19 Unanticipated School Closure	10.555	MDE	200902
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	191920/192010
Child Care Food Program	10.558	MDE	201920/202010
Fresh Fruits and Vegetables	10.582	MDE	190950
Fresh Fruits and Vegetables	10.582	MDE	200950
Total U.S. Department of Agriculture			
U.S. Department of Education			
Title I, Part A:			
Regular 18/19	84.010	MDE	191530-1819
Regular 19/20	84.010	MDE	201530-1920
Title VI, Part B:			
Regular 18/19	84.358	MDE	190660-1819

Approved Awards Amount	Accrued (Unearned) Revenue at July 1, 2019	Federal Funds / Payments In-Kind Received	Expenditures (Memo Only) Prior Year(s)	Expenditures June 30, 2020	Accrued (Unearned) Revenue at June 30, 2020
395,342	\$ 15,999	\$ 66,091	\$ 345,250	\$ 50,092	\$ -
243,282	-	243,282	-	243,282	-
	<u>15,999</u>	<u>309,373</u>	<u>345,250</u>	<u>293,374</u>	<u>-</u>
110,103	-	110,103	-	110,103	-
1,073,120	40,795	180,823	933,092	140,028	-
667,558	-	667,558	-	667,558	-
529,700	-	422,244	-	529,700	107,456
	<u>40,795</u>	<u>1,380,728</u>	<u>933,092</u>	<u>1,447,389</u>	<u>107,456</u>
35,189	6,198	35,189	6,198	28,991	-
3,729	649	3,729	649	3,080	-
	<u>6,847</u>	<u>38,918</u>	<u>6,847</u>	<u>32,071</u>	<u>-</u>
	<u>63,641</u>	<u>1,729,019</u>	<u>1,285,189</u>	<u>1,772,834</u>	<u>107,456</u>
117,696	6,145	20,043	103,798	13,898	-
59,790	-	59,790	-	59,790	-
	<u>6,145</u>	<u>79,833</u>	<u>103,798</u>	<u>73,688</u>	<u>-</u>
14,350	-	1,040	14,350	1,040	-
20,690	-	20,690	-	20,690	-
	<u>-</u>	<u>21,730</u>	<u>14,350</u>	<u>21,730</u>	<u>-</u>
	<u>69,786</u>	<u>1,830,582</u>	<u>1,403,337</u>	<u>1,868,252</u>	<u>107,456</u>
1,017,774	180,644	180,644	965,654	-	-
940,949	-	691,909	-	854,501	162,592
	<u>180,644</u>	<u>872,553</u>	<u>965,654</u>	<u>854,501</u>	<u>162,592</u>
54,765	4,111	4,111	54,765	-	-

continued...

ADRIAN PUBLIC SCHOOLS

Schedule of Expenditures of Federal Awards For the Year Ended June 30, 2020

Federal Agency / Cluster / Program Title	CFDA Number	Passed Through	Pass-through / Grantor Number
U.S. Department of Education (concluded)			
Title III, Limited English:			
Regular 18/19	84.365	MDE	190580-1819
Regular 19/20	84.365	MDE	200580-1920
Title II, Part A:			
Regular 18/19	84.367	MDE	190520-1819
Regular 19/20	84.367	MDE	200520-1920
Title IV, Part A:			
Regular 18/19	84.424	MDE	190750-1819
Regular 19/20	84.424	MDE	200750-1920
COVID-19 ESSER/CARES - Formula			
Regular 19/20	84.425	MDE	203710-1920
Total U.S. Department of Education			
U.S. Department of Health and Human Services			
Head Start	93.600	Direct	05CH010384-03-01
Head Start	93.600	Direct	05CH010384-04-00
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, 2019	Federal Funds / Payments In-Kind Received	Expenditures (Memo Only) Prior Year(s)	Expenditures June 30, 2020	Accrued (Unearned) Revenue at June 30, 2020
23,946	\$ 1,383	\$ 1,383	\$ 13,997	\$ -	\$ -
26,408	-	11,945	-	12,182	237
	<u>1,383</u>	<u>13,328</u>	<u>13,997</u>	<u>12,182</u>	<u>237</u>
231,874	23,847	23,847	205,140	-	-
184,821	-	121,965	-	117,026	(4,939)
	<u>23,847</u>	<u>145,812</u>	<u>205,140</u>	<u>117,026</u>	<u>(4,939)</u>
70,968	5,299	5,299	64,659	-	-
71,217	-	51,579	-	57,326	5,747
	<u>5,299</u>	<u>56,878</u>	<u>64,659</u>	<u>57,326</u>	<u>5,747</u>
727,420	-	-	-	167,364	167,364
	<u>215,284</u>	<u>1,092,682</u>	<u>1,304,215</u>	<u>1,208,399</u>	<u>331,001</u>
3,769,355	583,056	583,056	3,711,533	-	-
3,835,103	-	3,242,659	-	3,780,602	537,943
	<u>583,056</u>	<u>3,825,715</u>	<u>3,711,533</u>	<u>3,780,602</u>	<u>537,943</u>
4,428	-	4,428	-	4,428	-
	<u>583,056</u>	<u>3,830,143</u>	<u>3,711,533</u>	<u>3,785,030</u>	<u>537,943</u>
	<u>\$ 868,126</u>	<u>\$ 6,753,407</u>	<u>\$ 6,419,085</u>	<u>\$ 6,861,681</u>	<u>\$ 976,400</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, 2020. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of 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*

October 21, 2020

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, 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated October 21, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. 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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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.

Rehmann Lobson LLC

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

October 21, 2020

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, 2020. The District's major federal programs 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 each of 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 each major federal program. 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, 2020.

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 2020-001. 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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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.

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

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ADRIAN PUBLIC SCHOOLS

Schedule of Findings and Questioned Costs For the Year Ended June 30, 2020

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: 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? _____ yes X none reported

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? _____ yes X 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, 2020

SECTION II - FINANCIAL STATEMENT FINDINGS

None reported.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

2020-001 - Program Income - Food Service Fund Balance

Finding Type. Immaterial Noncompliance

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 USDA requires that the ending balance of the non-profit school food service fund does not exceed three months' average of operating expenses [7 CFR Part 210.14(b)].

Condition. As of June 30, 2020, the District's fund balance exceeded three months' average of operating expenses.

Cause. This condition appears to be the result of the District's conservative budgeting of expenditures by management, and additional revenue received in fiscal year 2020 related to COVID-19.

Effect. As a result of this condition, the District did not fully comply with USDA fund balance requirements.

Questioned Costs. No costs have been questioned as a result of this finding.

Recommendation. We recommend the District review its budgeting of expenditures for the food service fund to ensure that fund balance is reduced to an appropriate level.

View of Responsible Official. The District is aware of the USDA fund balance requirements. The Food Service Director and Assistant Superintendent will create a spenddown plan to be submitted to MDE to get the fund balance within an allowable range.

Responsible Officials. Assistant Superintendent

Estimated Completion Date. June 30, 2021



ADRIAN PUBLIC SCHOOLS

Summary Schedule of Prior Audit Findings For the Year Ended June 30, 2020

Finding 2019-001 - Allowable Costs/Cost Principles - CFDA#'s 10.553, 10.555, & 10.559 - Child Nutrition Cluster

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. As a result of this condition, the District was exposed to increased risk that disbursements of federal awards could be made for unallowable costs. This finding has been resolved in the current year.



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