
Saline Area Schools

**Financial Report
with Supplemental Information
June 30, 2020**

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Independent Auditor's Report

To the Board of Education
Saline Area Schools

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Saline Area Schools (the "School District") as of and for the year ended June 30, 2020 and the related notes to the financial statements, which collectively comprise Saline Area Schools' 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.

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Saline Area Schools as of June 30, 2020 and the respective changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

To the Board of Education
Saline Area Schools

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, pension system and other postemployment benefit plan schedules of funding progress and employer contributions, and the major fund budgetary comparison schedule, as disclosed 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, which 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 supplemental 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 Supplemental Information

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 19, 2020 on our consideration of Saline Area Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the 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 Saline Area Schools' internal control over financial reporting and compliance.



October 19, 2020

This section of the annual financial report for Saline Area Schools (the "School District") presents our discussion and analysis of the School District's financial performance during the year ended June 30, 2020. Please read it in conjunction with the School District's financial statements, which immediately follow this section.

Using This Annual Report

This annual report consists of a series of financial statements and notes to those financial statements. These statements are organized so the reader can understand Saline Area Schools financially as a whole. The government-wide financial statements provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short term and what remains for future spending. The fund financial statements look at the School District's operations in more detail than the government-wide financial statements by providing information about the School District's most significant funds, the General Fund and the 2016 Building and Site Fund, with all other funds presented in one column as nonmajor funds. The remaining statements, the statement of fiduciary net position and the statement of changes in fiduciary net position, present financial information about activities for which the School District acts solely as an agent for the benefit of students and parents. This report is composed of the following elements:

**Management's Discussion and Analysis (MD&A)
(Required Supplemental Information)**

Basic Financial Statements

Government-wide Financial Statements

Fund Financial Statements

Notes to Financial Statements

Required Supplemental Information

Budgetary Information for Major Fund

Schedule of Proportionate Share of the Net Pension Liability

Schedule of Proportionate Share of the Net OPEB Liability

Schedule of Pension Contributions

Schedule of OPEB Contributions

Other Supplemental Information

Reporting the School District as a Whole - Government-wide Financial Statements

One of the most important questions asked about the School District is, "As a whole, what is the School District's financial condition as a result of the year's activities?" The statement of net position and the statement of activities, which appear first in the School District's financial statements, report information on the School District as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets, deferred outflows of resources, liabilities, and deferred inflows of resources using the accrual basis of accounting, which is similar to the accounting used by most private sector companies. All of the current year's revenue and expenses are taken into account, regardless of when cash is received or paid.

These two statements report the School District's net position, the difference between assets plus deferred outflows of resources and liabilities plus deferred inflows of resources, as reported in the statement of net position, as one way to measure the School District's financial health or financial position. Over time, increases or decreases in the School District's net position, as reported in the statement of activities, are indicators of whether its financial health is improving or deteriorating. The relationship between revenue and expenses is the School District's operating results. However, the School District's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other nonfinancial factors, such as the quality of the education provided and the safety of the schools, to assess the overall health of the School District.

The statement of net position and the statement of activities report the governmental activities for the School District, which encompass all of the School District's services, including instruction, support services, community services, athletics, and food services. Property taxes, unrestricted state aid (foundation allowance revenue), and state and federal grants finance most of these activities.

Reporting the School District's Fund Financial Statements

The School District's fund financial statements provide detailed information about the most significant funds, not the School District as a whole. Some funds are required to be established by state law and by bond covenants. However, the School District establishes many other funds to help it control and manage money for particular purposes (the Food Service Fund is an example) or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money (such as bond-funded construction funds used for voter-approved capital projects).

Governmental Funds

Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year end that are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the School District and the services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District's programs. We describe the relationship (or differences) between governmental activities (reported in the statement of net position and the statement of activities) and governmental funds in a reconciliation.

Fiduciary Funds

The School District is the trustee, or fiduciary, for its student activity funds. All of the School District's fiduciary activities are reported in a separate statement of fiduciary net position. We exclude these activities from the School District's other financial statements because the School District cannot use these assets to finance its operations. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

Saline Area Schools

Management's Discussion and Analysis (Continued)

The School District as a Whole

Recall that the statement of net position provides the perspective of the School District as a whole. The following table provides a summary of the School District's net position as of June 30, 2020 and 2019:

| | Governmental Activities | |
|---------------------------------------|-------------------------|------------------|
| | 2020 | 2019 |
| | (in millions) | |
| Assets | | |
| Current and other assets | \$ 23.8 | \$ 25.1 |
| Capital assets | 162.0 | 160.7 |
| Total assets | 185.8 | 185.8 |
| Deferred Outflows of Resources | 50.1 | 51.5 |
| Liabilities | | |
| Current liabilities | 15.4 | 10.4 |
| Noncurrent liabilities | 123.8 | 135.8 |
| Net pension liability | 130.6 | 118.4 |
| Net OPEB liability | 28.1 | 31.7 |
| Total liabilities | 297.9 | 296.3 |
| Deferred Inflows of Resources | 21.2 | 22.2 |
| Net Position | | |
| Net investment in capital assets | 45.4 | 36.9 |
| Restricted | 0.6 | 0.8 |
| Unrestricted | (129.2) | (118.9) |
| Total net position | \$ (83.2) | \$ (81.2) |

The above analysis focuses on net position. The change in net position of the School District's governmental activities is discussed below. The School District's net deficit was \$(83.2) million at June 30, 2020. Net investment in capital assets totaling \$45.4 million compares the original cost, less depreciation of the School District's capital assets, to long-term debt used to finance the acquisition of those assets. Most of the debt will be repaid from voter-approved property taxes collected as the debt service comes due. Restricted net position is reported separately to show legal constraints from debt covenants and enabling legislation that limit the School District's ability to use that net position for day-to-day operations.

The \$(129.2) million in unrestricted net deficit of governmental activities represents the accumulated results of all past years' operations and the impact from adoption of Governmental Accounting Standards Board (GASB) Statement Nos. 68 and 75 (recording the School District's share of the net pension and OPEB liabilities from the state-managed retirement system), which is driving the substantial negative net position. The operating results of the General Fund and the change in the net pension and OPEB liabilities will have significant impacts on the change in unrestricted net position from year to year.

Saline Area Schools

Management's Discussion and Analysis (Continued)

The results of this year's operations for the School District as a whole are reported in the condensed statement of activities below, which shows the changes in net position for the years ended June 30, 2020 and 2019:

| | Governmental Activities | |
|--|-------------------------|------------------|
| | 2020 | 2019 |
| | (in millions) | |
| Revenue | | |
| Program revenue: | | |
| Charges for services | \$ 2.8 | \$ 4.4 |
| Operating grants and contributions | 24.2 | 21.8 |
| General revenue: | | |
| Property taxes | 23.8 | 22.6 |
| State foundation allowance | 33.2 | 34.8 |
| Other | 1.5 | 1.1 |
| Total revenue | 85.5 | 84.7 |
| Expenses | | |
| Instruction | 43.7 | 42.7 |
| Support services | 25.7 | 25.6 |
| Athletics | 1.2 | 1.3 |
| Food services | 1.6 | 1.6 |
| Community services | 3.3 | 3.3 |
| Other | 0.2 | 0.1 |
| Interest on long-term debt | 4.6 | 1.2 |
| Depreciation expense (unallocated) | 7.2 | 7.0 |
| Total expenses | 87.5 | 82.8 |
| Special item - Interest rate swap redemption | - | (3.5) |
| Change in Net Position | (2.0) | (1.6) |
| Net Position - Beginning of year | (81.2) | (79.6) |
| Net Position - End of year | \$ (83.2) | \$ (81.2) |

As reported in the statement of activities, the cost of all of our governmental activities this year was \$87.5 million. Certain activities were partially funded from those who benefited from the programs (\$2.8 million) or by other governments and organizations that subsidized certain programs with grants and contributions (\$24.2 million). We paid for the remaining public benefit portion of our governmental activities with \$23.8 million in taxes, \$33.2 million in state foundation allowance, and other revenue (i.e., interest and general entitlements).

The School District experienced a decrease in net position of \$2.0 million. This decrease in net position was primarily due to the increase in the School District's share of the MPSERS and OPEB liabilities.

As discussed above, the net cost shows the financial burden that was placed on the State and the School District's taxpayers by each of these functions. Since property taxes for operations and unrestricted state aid constitute the vast majority of district operating revenue sources, the Board of Education and administration must annually evaluate the needs of the School District and balance those needs with state-prescribed available unrestricted resources.

Due to COVID-19 affecting the last quarter of the fiscal year, there were some significant changes to our finances. An immediate change to revenue was to fee-based services provided in our community education and food service programs. This affected an indirect payment that the General Fund typically receives from community education and additional support for the Food Service Fund. There were direct reductions to supplies, materials, and purchased services expenses throughout the School District from canceled athletic events, bussing, cleaning, subs, etc. The economic impact was still affecting our finances past our year end June 30. The State determined there was a funding shortfall and reduced our state funding in August (that is, adjusted back to the fiscal year ended June 30, 2020) by \$175 per pupil. Though we realized some one-time savings due to the reduction of expenditures, we anticipate the economic conditions will continue to be volatile, which may significantly impact future funding. Based on past experience from our last economic downturn, we would anticipate that schools may feel the effects in the years to come.

The School District's Funds

As we noted earlier, the School District uses funds to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether the School District is being accountable for the resources taxpayers and others provide to it and may provide more insight into the School District's overall financial health.

As the School District completed this year, the governmental funds reported a combined fund balance of \$8.8 million, which is a decrease of \$6.7 million from last year.

In the General Fund, our principal operating fund, the fund balance increased by \$1.3 million largely due to the reduction in expenditures resulting from the statewide school closure due to COVID-19.

Combined, the fund balance of our special revenue funds increased from \$0.5 million last year to \$0.7 million this year mainly due to reduced expenditures in the Community Services and Programs Fund. The three funds that make up the special revenue funds are the Community Services and Programs Fund, Food Service Fund, and Vocational Education Fund.

Combined, the fund balance of our debt service funds decreased from \$1.1 million last year to \$0.4 million this year. Millage rates are determined annually to ensure that the School District accumulates sufficient resources to pay annual bond issue-related debt service. Debt service fund balances are restricted since they can only be used to pay debt service obligations.

Combined, the fund balance of our capital projects funds decreased from \$11.0 million last year to \$3.7 million this year. This decrease is primarily due to the second series of the Building and Site Bond expenses with no new revenue received during the fiscal year. The School District collected \$0.66 million in voter-approved Sinking Fund millage. This millage is available to fund specific capital projects allowed by state law and approved by the voters.

General Fund Budgetary Highlights

Over the course of the year, the School District revises its budget as it attempts to deal with unexpected changes in revenue and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. The final amendment to the budget was adopted in June 2020. A schedule showing the School District's original and final budget amounts compared with amounts actually paid and received is provided in the required supplemental information section of these financial statements.

There were significant revisions made to the 2019-2020 General Fund budgeted revenue. At the time the original budget was formed and passed, the State of Michigan had yet to approve its budget, which represents our largest source of revenue. Unlike prior years, there was even less movement by the branches of government to propose budgets to give more sustenance to our estimations of what the consensus conference would bring to the governor to sign. Once the state budget was passed, the School District passed a budget amendment in November 2019 that contained significant adjustments for true allocations from the State. At this time, we also updated our student enrollment numbers to actual. Then, as COVID-19 shut down school in the last quarter of the year, the School District made significant adjustments to the final budgeted revenue as a result of the pandemic. The final amended revenue also represented a decrease to our indirect transfer from the community education fund to the General Fund. Subsequent to June 30, 2020, the State revised its estimates, resulting in a one-time funding reduction of \$175 per pupil, which is included in the financial statements for the current fiscal year. Since state law requires that budgets be passed by June 30, this decrease in funding was not included in the final budget.

There were also significant revisions made to the 2019-2020 General Fund budgeted expenditures. At the time the original budget was formed and passed, there were many teaching positions left vacant due to retirements, transfers, and resignations. The original budget estimated all of the positions being filled, and, due to the number of positions needing to be filled and overall teacher shortages, higher than usual starting salaries for these positions were estimated. It is also customary to estimate full benefits for open positions. Our November amendment allowed for enough time to reflect actual full-time employees (FTE) in positions, starting salaries, and benefit packages selected. With a lower FTE count and lower starting salaries than initially estimated, this represented a lower expense to both salaries and benefits, which makes up 87 percent of the total expenditures in the General Fund. The final amendment passed in June 2020 included many expenditure adjustments. Expenditure budget amendments included increased transfers out of the General Fund to cover Food Service Fund losses, an estimated reduction to overage hours lost, an estimated reduction to typical supplies and materials, and an addition to transitional purchases to move to online instruction. Though the closure had begun, there was a significant number of unknowns, and the unprecedented times caused difficulty in estimating how the year would end. Many contracts were being revised, events canceled, refunds requested, and grants awarded, all as we approached the end of the year, making it hard to estimate which year each item would ultimately be recognized in prior to the adoption of the final amended budget.

There were no significant variances between the final budget and actual amounts.

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2020, the School District had \$162.0 million invested in a broad range of capital assets, including land, buildings, vehicles, furniture, and equipment. This amount represents a net increase (including additions, disposals, and depreciation) of approximately \$1.3 million from last year.

| | 2020 | 2019 |
|---|-----------------------|-----------------------|
| Land | \$ 12,391,681 | \$ 12,391,681 |
| Buildings and improvements | 219,533,068 | 212,027,958 |
| Furniture and equipment | 35,653,351 | 34,631,250 |
| Buses and other vehicles | 4,030,539 | 4,132,925 |
| Total capital assets | 271,608,639 | 263,183,814 |
| Less accumulated depreciation | 109,573,500 | 102,477,556 |
| Total capital assets - Net of accumulated depreciation | \$ 162,035,139 | \$ 160,706,258 |

This year's additions of \$8.5 million were primarily due to building improvements, buses, furniture, and equipment. Capital projects planned for the 2019-2020 fiscal year include the continuation of the projects begun during 2019-2020. We present more detailed information about our capital assets in the notes to the financial statements.

Debt

At the end of this year, the School District had \$98.3 million in bonds outstanding versus \$111.4 million in the previous year - a change of 11.7 percent. Those bonds consisted of the following:

| | 2020 | 2019 |
|--------------------------|---------------|----------------|
| General obligation bonds | \$ 98,345,000 | \$ 111,430,000 |

The State limits the amount of general obligation debt that schools can issue to 15 percent of the assessed value of all taxable property within the School District's boundaries. If the School District issues qualified debt (i.e., debt backed by the State of Michigan), such obligations are not subject to this debt limit. The School District's outstanding unqualified general obligation debt is significantly below this statutorily imposed limit.

Other obligations include School Loan Revolving Funds and compensated absences. We present more detailed information about our long-term liabilities in the notes to the financial statements.

Economic Factors and Next Year's Budgets and Rates

The economic climate has created additional unknowns to the 2020-2021 budget process. Elected officials and administration consider many factors in setting the 2020-2021 budget passed in June 2020. There was a reduction to the student count in anticipation of the volatile school setting anticipated for the fall. There was a significant amount of discussion about changing the calculation and methods of determining the official student count, but nothing had been established at the time the budget was passed, and, thus, the School District budgeted using the historical 90/10 formula for estimating enrollment. In the absence of a state-passed budget and with no movements on passed budgets from the House and Senate, a reduction of per pupil funding was estimated. Though they are not yet reflected in the 2020-2021 original budgeted revenue due to being received after the passage of the initial budget, there were significant amounts of federal COVID-19 funding received by the School District, which will be reflected in future fiscal year 2020-2021 budget amendments.

The economic climate is also estimated to affect the 2020-2021 expenditures. There is a significant number of changes to expenditures, both decreases and increases. Though there was not a set return to learn plan in place when the original budget was originally passed, Saline Area Schools stayed in remote learning to start the 2020-2021 year. This has an effect on transportation, material, salaries, substitutes, purchased services, etc. Federal COVID-19 grant funds will play a large role in amended expenditures, including, but not limited to, current mandates that require some of these funds be incurred prior to December 31, 2020. We also expect significant amendments to the budget multiple times this year, as federal, state, and school methods are all changing often.

In addition to COVID-19 volatility, there is a significant amount of political volatility that may affect next year's budget. In addition to the presidential election, there are three seats on the Saline School Board up for election as well. The SEA teacher contracts will also expire on December 31, 2020, affecting half of the fiscal year and a significant amount of our staff.

Contacting the School District's Management

This financial report is intended to provide our taxpayers, parents, and investors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have any questions about this report or need additional information, we welcome you to contact the finance office.

Saline Area Schools

Statement of Net Position

June 30, 2020

Governmental
Activities

Assets

| | |
|------------------------------------|--------------|
| Cash and cash equivalents (Note 4) | \$ 7,378,527 |
| Receivables: | |
| Other receivables | 465,469 |
| Due from other governments | 10,638,606 |
| Inventory | 75,121 |
| Prepaid expenses and other assets | 792,629 |
| Restricted assets (Note 10) | 4,376,069 |
| Capital assets - Net (Note 6) | 162,035,139 |
| Total assets | 185,761,560 |

Deferred Outflows of Resources

| | |
|---|------------|
| Deferred charges on bond refunding (Note 9) | 3,062,130 |
| Deferred pension costs (Note 12) | 37,874,033 |
| Deferred OPEB costs (Note 12) | 9,160,144 |
| Total deferred outflows of resources | 50,096,307 |

Liabilities

| | |
|--|-------------|
| Accounts payable | 1,441,434 |
| Due to other governmental units | 1,179,457 |
| Accrued liabilities and other | 3,511,608 |
| State aid anticipation note (Note 8) | 9,117,000 |
| Unearned revenue (Note 5) | 162,604 |
| Noncurrent liabilities: (Notes 9 and 12) | |
| Due within one year | 14,700,078 |
| Due in more than one year | 109,017,570 |
| Net pension liability | 130,611,635 |
| Net OPEB liability | 28,147,410 |
| Total liabilities | 297,888,796 |

Deferred Inflows of Resources

| | |
|--|------------|
| Other deferred inflows | 4,323,524 |
| Deferred pension cost reductions (Note 12) | 5,490,600 |
| Deferred OPEB cost reductions (Note 12) | 11,382,144 |
| Total deferred inflows of resources | 21,196,268 |

Net Position

| | |
|----------------------------------|-----------------|
| Net investment in capital assets | 45,354,191 |
| Restricted - Capital projects | 632,859 |
| Unrestricted | (129,214,247) |
| Total net position | \$ (83,227,197) |

Saline Area Schools

Statement of Activities

Year Ended June 30, 2020

| Functions/Programs | Expenses | Program Revenue | | Governmental |
|---|----------------------|----------------------|------------------------------------|-------------------------------|
| | | Charges for Services | Operating Grants and Contributions | Changes in Net Position |
| Primary government - Governmental activities: | | | | |
| Instruction | \$ 43,678,234 | \$ 8,335 | \$ 15,502,934 | \$ (28,166,965) |
| Support services | 25,709,352 | - | 8,347,733 | (17,361,619) |
| Athletics | 1,235,523 | 228,741 | - | (1,006,782) |
| Food services | 1,608,121 | 818,139 | 303,150 | (486,832) |
| Community services | 3,279,254 | 1,699,709 | - | (1,579,545) |
| Interdistrict payments | 164,064 | - | - | (164,064) |
| Interest | 4,609,073 | - | - | (4,609,073) |
| Other | 5,238 | - | - | (5,238) |
| Depreciation expense (unallocated) | 7,201,740 | - | - | (7,201,740) |
| Total primary government | \$ 87,490,599 | \$ 2,754,924 | \$ 24,153,817 | (60,581,858) |
| General revenue: | | | | |
| Taxes: | | | | |
| Property taxes levied for general purposes | | | | 7,362,580 |
| Property taxes levied for debt service | | | | 14,909,556 |
| Property taxes levied for Sinking Fund | | | | 647,590 |
| Property taxes levied for community services | | | | 925,605 |
| State aid not restricted to specific purposes | | | | 33,170,495 |
| Interest and investment earnings | | | | 305,129 |
| Other | | | | 1,239,879 |
| Total general revenue | | | | <u>58,560,834</u> |
| Change in Net Position | | | | (2,021,024) |
| Net Position - Beginning of year | | | | <u>(81,206,173)</u> |
| Net Position - End of year | | | | <u>\$ (83,227,197)</u> |

Saline Area Schools

**Governmental Funds
Balance Sheet**

June 30, 2020

| | <u>General Fund</u> | <u>2016 Building and Site Fund</u> | <u>Nonmajor Funds</u> | <u>Total Governmental Funds</u> |
|--|----------------------|--|---------------------------|---|
| Assets | | | | |
| Cash and cash equivalents (Note 4) | \$ 6,674,007 | \$ - | \$ 704,520 | \$ 7,378,527 |
| Receivables: | | | | |
| Other receivables | 53,476 | - | 411,993 | 465,469 |
| Due from other governments | 10,638,606 | - | - | 10,638,606 |
| Due from other funds (Note 7) | 2,494,344 | 12,800 | 2,793,733 | 5,300,877 |
| Inventory | 40,050 | - | 35,071 | 75,121 |
| Prepaid expenses and other assets | 792,629 | - | - | 792,629 |
| Restricted assets (Note 10) | - | 3,094,766 | 1,281,303 | 4,376,069 |
| | <u>\$ 20,693,112</u> | <u>\$ 3,107,566</u> | <u>\$ 5,226,620</u> | <u>\$ 29,027,298</u> |
| Total assets | | | | |
| Liabilities | | | | |
| Accounts payable | \$ 220,728 | \$ 676,359 | \$ 281,939 | \$ 1,179,026 |
| Due to other governmental units | 1,179,457 | - | - | 1,179,457 |
| Due to other funds (Note 7) | 3,036,730 | - | 2,526,555 | 5,563,285 |
| Accrued liabilities and other | 2,985,436 | - | 525 | 2,985,961 |
| State aid anticipation note (Note 8) | 9,117,000 | - | - | 9,117,000 |
| Unearned revenue (Note 5) | 6,821 | - | 155,783 | 162,604 |
| | <u>16,546,172</u> | <u>676,359</u> | <u>2,964,802</u> | <u>20,187,333</u> |
| Total liabilities | | | | |
| Fund Balances | | | | |
| Nonspendable - Inventory and prepaid costs | 832,679 | - | 35,071 | 867,750 |
| Restricted: | | | | |
| Debt service | - | - | 2,485,254 | 2,485,254 |
| Capital projects | - | 2,431,207 | - | 2,431,207 |
| Community service | - | - | 443,601 | 443,601 |
| Sinking fund | - | - | 1,026,520 | 1,026,520 |
| Vocational education | - | - | 182,052 | 182,052 |
| Assigned: | | | | |
| Subsequent year's budget | 1,169,087 | - | - | 1,169,087 |
| Capital projects | - | - | 205,870 | 205,870 |
| Unassigned | 2,145,174 | - | (2,116,550) | 28,624 |
| | <u>4,146,940</u> | <u>2,431,207</u> | <u>2,261,818</u> | <u>8,839,965</u> |
| Total fund balances | | | | |
| Total liabilities and fund balances | <u>\$ 20,693,112</u> | <u>\$ 3,107,566</u> | <u>\$ 5,226,620</u> | <u>\$ 29,027,298</u> |

Governmental Funds

Reconciliation of the Balance Sheet to the Statement of Net Position

June 30, 2020

| | |
|---|-------------------------------|
| Fund Balances Reported in Governmental Funds | \$ 8,839,965 |
| Amounts reported for governmental activities in the statement of net position are different because: | |
| Capital assets used in governmental activities are not financial resources and are not reported in the funds: | |
| Cost of capital assets | 271,608,639 |
| Accumulated depreciation | <u>(109,573,500)</u> |
| Net capital assets used in governmental activities | 162,035,139 |
| Deferred outflows related to deferred charges on bond refundings are not reported in the governmental funds | 3,062,130 |
| Bonds payable and loan obligations are not due and payable in the current period and are not reported in the funds | (122,887,856) |
| Accrued interest is not due and payable in the current period and is not reported in the funds | (525,647) |
| Some employee fringe benefits are payable over a long period of years and do not represent a claim on current financial resources; therefore, they are not reported as fund liabilities: | |
| Employee compensated absences and early retirement incentives | (829,792) |
| Net pension liability and related deferred inflows and outflows | (98,228,202) |
| Net OPEB liability and related deferred inflows and outflows | (30,369,410) |
| Revenue in support of pension contributions made subsequent to the measurement date is reported as a deferred inflow of resources in the statement of net position and is not reported in the funds | <u>(4,323,524)</u> |
| Net Position of Governmental Activities | <u>\$ (83,227,197)</u> |

Saline Area Schools

Governmental Funds
Statement of Revenue, Expenditures, and Changes in Fund Balances

Year Ended June 30, 2020

| | General Fund | 2016 Building and Site Fund | Nonmajor Funds | Total Governmental Funds |
|--|---------------------|--------------------------------|---------------------|--------------------------------|
| Revenue | | | | |
| Local sources | \$ 8,209,606 | \$ 413,325 | \$ 19,522,332 | \$ 28,145,263 |
| State sources | 43,714,478 | - | 1,030,465 | 44,744,943 |
| Federal sources | 1,422,115 | - | 756,242 | 2,178,357 |
| Interdistrict sources | 9,429,154 | - | 884,431 | 10,313,585 |
| Total revenue | 62,775,353 | 413,325 | 22,193,470 | 85,382,148 |
| Expenditures | | | | |
| Current: | | | | |
| Instruction | 37,882,429 | - | 489,086 | 38,371,515 |
| Support services | 22,135,907 | - | 868,632 | 23,004,539 |
| Athletics | 1,138,586 | - | - | 1,138,586 |
| Food services | - | - | 1,516,615 | 1,516,615 |
| Community services | 24,636 | - | 3,020,793 | 3,045,429 |
| Debt service: | | | | |
| Principal | - | - | 13,085,000 | 13,085,000 |
| Interest | 163,774 | - | 4,891,865 | 5,055,639 |
| Other | - | - | 5,238 | 5,238 |
| Capital outlay | 3,508 | 7,794,132 | 784,353 | 8,581,993 |
| Interdistrict payments | - | - | 164,064 | 164,064 |
| Total expenditures | 61,348,840 | 7,794,132 | 24,825,646 | 93,968,618 |
| Excess of Revenue Over (Under) Expenditures | 1,426,513 | (7,380,807) | (2,632,176) | (8,586,470) |
| Other Financing Sources (Uses) | | | | |
| School Bond Loan Revolving Fund proceeds | - | - | 1,910,000 | 1,910,000 |
| Transfers in (Note 7) | - | - | 165,594 | 165,594 |
| Transfers out (Note 7) | (165,594) | - | - | (165,594) |
| Total other financing (uses) sources | (165,594) | - | 2,075,594 | 1,910,000 |
| Net Change in Fund Balances | 1,260,919 | (7,380,807) | (556,582) | (6,676,470) |
| Fund Balances - Beginning of year | 2,886,021 | 9,812,014 | 2,818,400 | 15,516,435 |
| Fund Balances - End of year | \$ 4,146,940 | \$ 2,431,207 | \$ 2,261,818 | \$ 8,839,965 |

Saline Area Schools

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances to the Statement of Activities

Year Ended June 30, 2020

| | |
|---|-------------------------------------|
| Net Change in Fund Balances Reported in Governmental Funds | \$ (6,676,470) |
| Amounts reported for governmental activities in the statement of activities are different because: | |
| Governmental funds report capital outlays as expenditures; however, in the statement of activities, these costs are allocated over their estimated useful lives as depreciation: | |
| Capitalized capital outlay | 8,530,621 |
| Depreciation expense | (7,201,740) |
| Revenue in support of pension contributions made subsequent to the measurement date | 87,427 |
| Issuing debt, net of premiums, provides current financial resources to governmental funds but increases long-term liabilities in the statement of net position | (1,910,000) |
| Repayment of bond principal is an expenditure in the governmental funds but not in the statement of activities (where it reduces long-term debt); amortization of premiums/discounts and inflows/outflows related to bond refundings are not expenses in the governmental funds | 13,226,137 |
| Interest expense is recognized in the government-wide statements as it accrues | 305,429 |
| Some employee costs (pension, OPEB, and compensated absences) do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds | <u>(8,382,428)</u> |
| Change in Net Position of Governmental Activities | <u><u>\$ (2,021,024)</u></u> |

Saline Area Schools

Fiduciary Funds Statement of Fiduciary Net Position

June 30, 2020

| | Private Purpose Trust Fund | Student Activities Fund |
|-------------------------------|-------------------------------|----------------------------|
| Assets | | |
| Cash and cash equivalents | \$ 138,592 | \$ 754,223 |
| Receivables | - | 35,471 |
| Due from other funds (Note 7) | - | 281,057 |
| Total assets | 138,592 | 1,070,751 |
| Liabilities | | |
| Accounts payable | 4,000 | 31,943 |
| Due to student activities | - | 1,027,070 |
| Due to other funds (Note 7) | 7,043 | 11,606 |
| Accrued liabilities and other | - | 132 |
| Total liabilities | 11,043 | 1,070,751 |
| Net Position | \$ 127,549 | \$ - |

Saline Area Schools

Fiduciary Funds Statement of Changes in Fiduciary Net Position

Year Ended June 30, 2020

| | <u>Private Purpose Trust Fund</u> |
|---|---------------------------------------|
| Additions - Interest | \$ 1,760 |
| Deductions | <u>5,278</u> |
| Net Decrease in Net Position | (3,518) |
| Net Position - Beginning of year | <u>131,067</u> |
| Net Position - End of year | <u><u>\$ 127,549</u></u> |

June 30, 2020

Note 1 - Nature of Business

Saline Area Schools (the "School District") is a school district in the state of Michigan that provides educational services to students.

Note 2 - Significant Accounting Policies

Accounting and Reporting Principles

The School District follows accounting principles generally accepted in the United States of America (GAAP), as applicable to governmental units. Accounting and financial reporting pronouncements are promulgated by the Governmental Accounting Standards Board. The following is a summary of the significant accounting policies used by the School District:

Reporting Entity

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

Report Presentation

Governmental accounting principles require that financial reports include two different perspectives, the government-wide perspective and the fund-based perspective. The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units, as applicable. The government-wide financial statements are presented on the economic resources measurement focus and the full accrual basis of accounting. Property taxes are recognized as revenue 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. The statements also present a schedule reconciling these amounts to the modified accrual-based presentation found in the fund-based statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenue includes: (1) charges to customers or applicants for goods, services, or privileges provided and (2) operating grants and contributions. Taxes, unrestricted intergovernmental receipts, and other items not properly included among program revenue are reported instead as general revenue.

For the most part, the effect of interfund activity has been removed from the government-wide financial statements.

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

Basis of Accounting

The governmental funds use the current financial resources measurement focus and the modified accrual basis of accounting. This basis of accounting is intended to better demonstrate accountability for how the School District has spent its resources.

Note 2 - Significant Accounting Policies (Continued)

Expenditures are reported when the goods are received or the services are rendered. Capital outlays are reported as expenditures (rather than as capital assets) because they reduce the ability to spend resources in the future; conversely, employee benefit costs that will be funded in the future (such as pension and retiree health care-related costs or sick and vacation pay) are not counted until they come due for payment. In addition, debt service expenditures, claims, and judgments are recorded only when payment is due.

Revenue is not recognized until it is collected or collected soon enough after the end of the year that it is available to pay for obligations outstanding at the end of the year. For this purpose, the School District considers amounts collected within 60 days of year end to be available for recognition. Revenue not meeting this definition is classified as a deferred inflow of resources.

Fiduciary funds use the economic resources measurement focus and the full accrual basis of accounting. Revenue is recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Fund Accounting

The School District accounts for its various activities in several different funds in order to demonstrate accountability for how it spends certain resources; separate funds allow the School District to show the particular expenditures for which specific revenue is used.

Governmental Funds

Governmental funds include all activities that provide general governmental services that are not business-type activities. Governmental funds can include the General Fund, special revenue funds, debt service funds, capital projects funds, and permanent funds. The School District reports the following funds as major governmental funds:

- The General Fund is the primary operating fund because it accounts for all financial resources used to provide government services other than those specifically assigned to another fund.
- The 2016 Building and Site Fund is used to record bond proceeds or other revenue and the disbursement of invoices specifically designated for remodeling, furnishing, and equipping school buildings and sites; purchasing school buses; and purchasing computing devices and classroom technology. The fund operates until the purpose for which it was created is accomplished.

Additionally, the School District reports the following nonmajor governmental fund types:

- Special revenue funds are used to account for the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes.
- Capital projects funds are used to record bond proceeds or other revenue and the disbursement of invoices specifically designated for acquiring new school sites, buildings, and equipment; technology upgrades; and remodeling and repairs. The funds operate until the purpose for which they were created is accomplished.
- Debt service funds are used to record tax, interest, and other revenue for payment of interest, principal, and other expenditures on long-term debt.

Note 2 - Significant Accounting Policies (Continued)

Fiduciary Funds

Fiduciary funds include amounts held in a fiduciary capacity for others. These amounts are not used to operate the School District's programs. Activities that are reported as fiduciary include the following:

- The School District presently maintains an agency fund (Student Activities Fund) to record the transactions of student groups for school and school-related purposes. The funds are segregated and held for the students.
- Private purpose trust funds are used to account for resources legally held in trust, including contributions received by the School District to be awarded in the form of scholarships.

Interfund Activity

During the course of operations, the School District has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities (i.e., the governmental and fiduciary funds) are eliminated so that only the net amount is included as internal balances in the governmental activities column.

Furthermore, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements, these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column.

Specific Balances and Transactions

Cash and Investments

Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value, except for investments in external investment pools, which are valued at amortized cost.

Receivables and Payables

In general, outstanding balances between funds are reported as due to/from other funds.

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

Inventories and Prepaid Items

Inventories are valued at cost on a first-in, first-out basis. Inventories, including United States Department of Agriculture Commodities inventory received by the Food Service Fund, are recorded as expenditures when consumed rather than purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements, when applicable.

Restricted Assets

The unspent bond proceeds and related interest of the capital projects funds require amounts to be set aside for construction. In addition, the unspent property taxes levied in the debt service funds and Sinking Fund are required to be set aside for future bond principal and interest and approved Sinking Fund projects, respectively. These amounts have been classified as restricted assets.

Note 2 - Significant Accounting Policies (Continued)

Capital Assets

Capital assets, which include land, buildings, equipment, and vehicles, are reported in the applicable governmental activities column in the government-wide financial statements. Capital assets are defined by the School District as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of five years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated acquisition value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset life are not capitalized. The School District does not have infrastructure-type assets.

Capital assets are depreciated using the straight-line method over the following useful lives:

| | <u>Depreciable Life - Years</u> |
|----------------------------|-------------------------------------|
| Buildings and improvements | 20 to 50 |
| Furniture and equipment | 5 to 20 |
| Buses and other vehicles | 8 |

Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net position. Bond premiums and discounts are deferred and amortized over the lives of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed at the time they are incurred. In the fund financial statements, governmental fund types recognize bond issuances and premiums as other financing sources and bond discounts as other financing uses.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position and/or balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to future periods and will not be recognized as an outflow of resources (expenditure) until then. The School District reports deferred outflows of resources related to deferred charges on bond refundings and deferred pension and OPEB costs.

In addition to liabilities, the statement of net position and/or balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to future periods and will not be recognized as an inflow of resources (revenue) until that time. The School District reports deferred inflows related to revenue in support of pension contributions made subsequent to the measurement date and deferred pension and OPEB plan cost reductions.

Net Position

Net position of the School District is classified in three components. Net investment in capital assets consists of capital assets net of accumulated depreciation and is reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. The restricted component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Unrestricted net position is the remaining net position that does not meet the definition of invested in capital or restricted.

Note 2 - Significant Accounting Policies (Continued)

Net Position Flow Assumption

The School District will sometimes fund outlays for a particular purpose from both restricted and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the School District's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

Fund Balance Flow Assumptions

The School District will sometimes fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the School District's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Furthermore, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

Fund Balance Policies

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The nonspendable fund balance component represents amounts that are not in spendable form or are legally or contractually required to be maintained intact. Restricted fund balance represents amounts that are legally restricted by outside parties, constitutional provisions, or enabling legislation for use for a specific purpose. The School District itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the School District's highest level of decision-making authority. The Board of Education is the highest level of decision-making authority for the School District that can, by passing a resolution prior to the end of the fiscal year, commit fund balance. Once passed, the limitation imposed by the resolution remains in place until a similar action is taken (the passing of another resolution) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as committed. The School District has, by resolution, authorized the superintendent to assign fund balance. The Board of Education may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential either to remove or revise a commitment.

Property Tax Revenue

Properties are assessed as of December 31, and the related property taxes become a lien on July 1 of the following year for 100 percent of the taxes that are due on August 31. Tax collections are forwarded to the School District as they are collected by the assessing municipalities through March 1, at which time they are considered delinquent and added to county tax rolls. Any delinquent taxes collected by the county are remitted to the School District by June 30. The School District considers all receivables to be fully collectible; accordingly, no allowance for uncollectible amounts is recorded.

June 30, 2020

Note 2 - Significant Accounting Policies (Continued)**Pension and Other Postemployment Benefit (OPEB) Plans**

For the purpose of measuring the net pension and net OPEB liabilities, deferred outflows of resources and deferred inflows of resources related to each plan, and pension and OPEB expense, information about the fiduciary net position of the Michigan Public School Employees' Retirement System (MPERS) and additions to/deductions from the MPERS fiduciary net position have been determined on the same basis as they are reported by MPERS. MPERS uses the economic resources measurement focus and the full accrual basis of accounting. Contribution revenue is recorded as contributions are due, pursuant to legal requirements. Benefit payments (including refunds of employee contributions) are recognized as expenses when due and payable in accordance with the plan benefit terms. Related plan investments are reported at fair value.

Compensated Absences (Vacation and Sick Leave)

It is the School District's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. Sick pay is accrued for the estimated amount that the School District will pay upon employment termination; vacation pay is accrued when incurred. Both of these are reported in the government-wide financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end. Generally, the funds that report each employee's compensation are used to liquidate the obligations.

Use of Estimates

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

Upcoming Accounting Pronouncements

In January 2017, the Governmental Accounting Standards Board issued Statement No. 84, *Fiduciary Activities*. This statement establishes criteria for identifying fiduciary activities of all state and local governments. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. The provisions of this statement were originally effective for the School District's financial statements for the year ending June 30, 2020 but were extended to June 30, 2021 with the issuance of GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*. The School District has evaluated the impact this standard will have on the financial statements. As of July 1, 2020, the School District will report the activities and related balances currently reported as fiduciary in a newly created special revenue fund.

In June 2017, the Governmental Accounting Standards Board issued Statement No. 87, *Leases*, which improves accounting and financial reporting for leases by governments. This statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. The School District is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement were originally effective for the School District's financial statements for the year ending June 30, 2021 but were extended to June 30, 2022 with the issuance of GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*.

Note 2 - Significant Accounting Policies (Continued)

Subsequent Events

The financial statements and related disclosures include evaluation of events up through and including October 19, 2020, which is the date the financial statements were available to be issued.

Following the passing of the Coronavirus Aid, Relief, and Economic Security (CARES) Act, which was signed into law on March 27, 2020 to combat the effects of the COVID-19 pandemic, the U.S. Department of Treasury distributed Coronavirus Relief Fund (CRF) payments to the State of Michigan. During July and August 2020, the School District received \$1,886,107 of these restricted CRF funds from the Michigan Department of Education. The CRF funds can be used only for eligible costs and are subject to certain Uniform Guidance and grant-specific reporting requirements.

Note 3 - Stewardship, Compliance, and Accountability

Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles and state law for the General Fund and all special revenue funds except that the General Fund budget includes capital outlay in the function category. All annual appropriations lapse at fiscal year end. The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the function level. State law requires the School District to have its budget in place by July 1. Expenditures in excess of amounts budgeted are a violation of Michigan law. State law permits districts to amend their budgets during the year. During the year, the budget was amended in a legally permissible manner. There were no significant amendments during the year.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders and contracts) are not tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services are rendered.

Excess of Expenditures Over Appropriations in Budgeted Funds

The School District did not have significant expenditure budget variances.

Fund Deficits and Management's Plan

The School District had a fund deficit in the 2016 SBLF Debt Service Fund and in the 2018 Debt Service Fund of \$1,835,684 and \$279,843, respectively, at June 30, 2020. These fund deficits will be eliminated through future debt service property tax collections.

Capital Projects Fund Compliance

The 2016 Building and Site Fund records capital project activities funded with bonds issued after May 1, 1994. For this fund, the School District has complied with the applicable provisions of §1351a of the State of Michigan's School Code.

The 2010 Sinking Fund capital project activities are funded with Sinking Fund millage. For this fund, authorized prior to March 29, 2017, the School District has complied with the applicable provisions of §1212 of the State of Michigan Revised School Code.

The 2018 Sinking Fund capital project activities are funded with Sinking Fund millage. For this fund, authorized after March 29, 2017, the School District has complied with the applicable provisions of §1212 of the State of Michigan Revised School Code.

Note 4 - Deposits and Investments

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

The School District has designated one bank for the deposit of its funds.

There are no limitations or restrictions on participant withdrawals for the investment pools that are recorded at amortized cost, except for a one-day minimum investment period on MILAF cash management funds.

The School District's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the School District's deposits may not be returned to it. The School District's investment policy requires that financial institutions be evaluated and only those with an acceptable risk level be used for the School District's deposits. At year end, the School District had \$8,675,654 of bank deposits (certificates of deposit and checking and savings accounts) that was uninsured and uncollateralized. The School District believes that, due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the School District evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Custodial Credit Risk of Investments

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The School District's investment policy states that custodial credit risk will be minimized by limiting investments to the types of securities allowed by state law and by prequalifying the financial institutions, broker/dealers, intermediaries, and advisors with which the School District will do business using the criteria established in the investment policy. At June 30, 2020, the School District does not have investments with custodial credit risk.

Credit Risk

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The School District has no investment policy that would further limit its investment choices. As of June 30, 2020, the credit quality ratings of debt securities are as follows:

| Investment | Fair Value | Rating | Rating Organization |
|----------------------------|--------------|--------|---------------------|
| Primary Government | | | |
| Michigan Liquid Asset Fund | \$ 3,004,697 | AAAm | Standard & Poor's |

Concentration of Credit Risk

The School District places no limit on the amount it may invest in any one issuer. The School District's policy minimizes concentration of credit risk by requiring diversification of the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

June 30, 2020

Note 5 - Unavailable/Unearned Revenue

Governmental funds report unavailable revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also report unearned revenue recognition in connection with resources that have been received but not yet earned.

At June 30, 2020, the School District had no unavailable revenue and \$162,604 of unearned revenue, primarily related to grant and categorical aid received prior to meeting all eligibility requirements.

Note 6 - Capital Assets

Capital asset activity of the School District's governmental activities was as follows:

| | Balance July 1, 2019 | Additions | Disposals and Adjustments | Balance June 30, 2020 |
|---|-------------------------|--------------|------------------------------|--------------------------|
| Capital assets not being depreciated - Land | \$ 12,391,681 | \$ - | \$ - | \$ 12,391,681 |
| Capital assets being depreciated: | | | | |
| Buildings and improvements | 212,027,958 | 7,505,110 | - | 219,533,068 |
| Furniture and equipment | 34,631,250 | 1,022,101 | - | 35,653,351 |
| Buses and other vehicles | 4,132,925 | 3,410 | (105,796) | 4,030,539 |
| Subtotal | 250,792,133 | 8,530,621 | (105,796) | 259,216,958 |
| Accumulated depreciation: | | | | |
| Buildings and improvements | 71,545,318 | 5,247,942 | - | 76,793,260 |
| Furniture and equipment | 27,858,216 | 1,681,941 | - | 29,540,157 |
| Buses and other vehicles | 3,074,022 | 271,857 | (105,796) | 3,240,083 |
| Subtotal | 102,477,556 | 7,201,740 | (105,796) | 109,573,500 |
| Net capital assets being depreciated | 148,314,577 | 1,328,881 | - | 149,643,458 |
| Net governmental activities capital assets | \$ 160,706,258 | \$ 1,328,881 | \$ - | \$ 162,035,139 |

Depreciation expense was not charged to activities, as the School District's assets benefit multiple activities and allocation is impractical.

Construction Commitments

The School District has active construction projects at year end. A total of \$1,709,531 of funds from the 2010 Sinking Fund and the 2016 Building and Site Fund has been committed toward these projects.

Note 7 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

| Fund Due To | Fund Due From | | | | Total |
|-----------------------------|---------------|----------------|-------------------------|----------------------------|--------------|
| | General Fund | Nonmajor Funds | Student Activities Fund | Private Purpose Trust Fund | |
| General Fund | \$ - | \$ 2,487,301 | \$ - | \$ 7,043 | \$ 2,494,344 |
| 2016 Building and Site Fund | 12,800 | - | - | - | 12,800 |
| Nonmajor funds | 2,742,873 | 39,254 | 11,606 | - | 2,793,733 |
| Student Activities Fund | 281,057 | - | - | - | 281,057 |
| Total | \$ 3,036,730 | \$ 2,526,555 | \$ 11,606 | \$ 7,043 | \$ 5,581,934 |

June 30, 2020

Note 7 - Interfund Receivables, Payables, and Transfers (Continued)

These balances result from the time lag between the dates that goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made.

During the current year, the General Fund transferred funds of \$103,000 to the Food Service Fund to prevent the Food Service Fund from operating at a deficit for the year due to the unanticipated closure affecting incoming revenue, as the School District continued to pay its food service employees. Additionally, the General Fund transferred funds of \$62,594 to the Maintenance and Equipment Fund to finance capital outlay purchases.

Note 8 - State Aid Anticipation Note

The School District has direct borrowings from the Michigan Finance Authority (the “Lender”) to provide sufficient resources before receiving its scheduled state aid. This liability is recorded as a fund liability in the General Fund.

During the year, the School District borrowed \$9,000,000 in state aid anticipation notes. The current notes bear interest at 1.30 percent and are due on August 20, 2020. At June 30, 2020, the School District has accrued interest of \$117,000 on these notes.

In the event of default, the notes are fully collateralized by the School District’s future state aid funding, and the Lender has the authority to intercept state aid payments at its discretion. In the event that all or a portion of the required payments at maturity are not made, a penalty interest rate will go into effect, and interest becomes due on demand. If the Lender has reason to believe that the School District will be unable to fulfill the required repayments, the Lender has the sole discretion to accelerate the principal and interest repayments.

In August 2020, the School District borrowed \$9,950,000 in state aid anticipation notes with an interest rate of 0.25 percent. The notes mature in August 2021 and have similar terms and provisions as the notes outstanding at June 30, 2020.

Note 9 - Long-term Debt

Long-term debt activity for the year ended June 30, 2020 can be summarized as follows:

| | Beginning Balance | Additions | Reductions | Ending Balance | Due within One Year |
|--|-----------------------|---------------------|------------------------|-----------------------|----------------------|
| Bonds and contracts payable: | | | | | |
| Direct borrowings and direct placements - School Loan Revolving Fund | \$ 9,607,199 | \$ 2,229,910 | \$ - | \$ 11,837,109 | \$ - |
| Other debt - General obligations | 111,430,000 | - | (13,085,000) | 98,345,000 | 13,525,000 |
| Unamortized bond premiums | 13,473,007 | - | (767,260) | 12,705,747 | 808,678 |
| Total bonds and contracts payable | 134,510,206 | 2,229,910 | (13,852,260) | 122,887,856 | 14,333,678 |
| Compensated absences and early retirement incentives | 1,273,561 | - | (443,769) | 829,792 | 366,400 |
| Total governmental activities long-term debt | \$ 135,783,767 | \$ 2,229,910 | \$ (14,296,029) | \$ 123,717,648 | \$ 14,700,078 |

The School District had deferred outflows of \$3,062,130 related to deferred charges on bond refundings at June 30, 2020.

Note 9 - Long-term Debt (Continued)

General Obligation Bonds and Other Long-term Liabilities

The School District issues general obligation bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the School District. The School District's qualified bonds are fully guaranteed by the State of Michigan. The primary source of any required repayment is from the School District's property tax levy; however, the State of Michigan may withhold the School District's state aid funding in order to recover amounts it has paid on behalf of the School District.

In previous years, the School District defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account's assets and liabilities for the defeased bonds are not included in the basic financial statements. As of June 30, 2020, there is still \$15,450,000 of bonds outstanding that are considered defeased.

General obligations outstanding at June 30, 2020 are as follows:

| Purpose | Amount Issued | Interest Rates | Maturing | Outstanding |
|-------------------------------|---------------|----------------|-------------|----------------------|
| Refunding Bonds | \$58,265,000 | 2.00 - 5.00% | May 1, 2030 | \$ 48,030,000 |
| Qualified Bond - Series I | \$34,140,000 | 5.00% | May 1, 2036 | 30,475,000 |
| Qualified Bond - Series II | \$12,960,000 | 4.00% | May 1, 2038 | 12,710,000 |
| General Obligation Bond | \$30,335,000 | 2.26% | May 1, 2021 | 7,130,000 |
| Total governmental activities | | | | <u>\$ 98,345,000</u> |

Debt Service Requirements to Maturity

Annual debt service requirements to maturity for the above bonds and note obligations are as follows:

| Years Ending June 30 | Other Debt | | |
|-------------------------|----------------------|----------------------|-----------------------|
| | Principal | Interest | Total |
| 2021 | \$ 13,525,000 | \$ 4,441,938 | \$ 17,966,938 |
| 2022 | 6,655,000 | 4,117,150 | 10,772,150 |
| 2023 | 6,305,000 | 3,791,650 | 10,096,650 |
| 2024 | 6,460,000 | 3,479,650 | 9,939,650 |
| 2025 | 6,660,000 | 3,160,400 | 9,820,400 |
| 2026-2030 | 35,305,000 | 10,743,250 | 46,048,250 |
| 2031-2035 | 17,500,000 | 3,892,000 | 21,392,000 |
| 2036-2038 | 5,935,000 | 387,700 | 6,322,700 |
| Total | <u>\$ 98,345,000</u> | <u>\$ 34,013,738</u> | <u>\$ 132,358,738</u> |

Note 9 - Long-term Debt (Continued)

School Loan Revolving Fund

The School Loan Revolving Fund payable represents a direct borrowing from the State of Michigan for loans made to the School District, as authorized by the 1963 State of Michigan Constitution, for the purpose of paying principal and interest on general obligation bonds of the School District issued for capital expenditures. Interest rates are to be annually determined by the State Administrative Board in accordance with Section 9 of Act No. 92 of the Public Acts of 2005 (the "Act"), as amended. The School Loan Revolving Fund is accessible to school districts for borrowings that initiated after July 19, 2005. Interest during the year ended June 30, 2020 ranged from 3.07 percent to 3.41 percent. Repayment begins as soon as annual tax collections exceed annual debt service payment requirements. The predetermined mandatory final loan repayment date is May 1, 2036. If the School District fails to levy the appropriate debt mills in accordance with the agreement or defaults in loan repayment, the School District shall increase its debt levy in the next succeeding year, and a default late charge of 3 percent will apply. Due to the variability of the factors that affect the timing of repayment, including the future amount of state equalized value of property in the School District, no provision for repayment has been included in the above debt maturity schedule. If the School District is in default of the loan agreement, the State of Michigan may withhold state aid funding until repayment terms satisfactory to the State of Michigan have been made.

Note 10 - Restricted Assets

At June 30, 2020, restricted assets are composed of the following:

| Description | Governmental Activities |
|--------------------------------|----------------------------|
| Repairs and capital outlay | \$ 4,192,372 |
| Future debt service repayments | 183,697 |
| Total | <u>\$ 4,376,069</u> |

Note 11 - Risk Management

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

Note 12 - Michigan Public School Employees' Retirement System

Plan Description

The School District participates in the Michigan Public School Employees' Retirement System (the "System"), a statewide, cost-sharing, multiple-employer defined benefit public employee retirement system governed by the State of Michigan that covers substantially all employees of the School District. Certain school district employees also receive defined contribution retirement and health care benefits through the System. The System provides retirement, survivor, and disability benefits to plan members and their beneficiaries. The System also provides postemployment health care benefits to retirees and beneficiaries who elect to receive those benefits.

The System is administered by the Office of Retirement Services (ORS). The Michigan Public School Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplemental information for the pension and postemployment health care plans. That report is available on the web at <http://www.michigan.gov/orsschools>, or by writing to the Office of Retirement Services at 7150 Harris Drive, P.O. Box 30171, Lansing, MI 48909.

Note 12 - Michigan Public School Employees' Retirement System (Continued)

Benefits Provided

Benefit provisions of the defined benefit (DB) pension plan and the postemployment health care 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 pension plan and the postemployment health care plan.

Depending on the plan option selected, member retirement benefits are calculated as final average compensation times years of services times a pension factor ranging from 1.25 to 1.50 percent. The requirements to retire range from attaining the age of 46 to 60 with years of service ranging from 5 to 30 years, depending on when the employee became a member. Early retirement is computed in the same manner as a regular pension but is permanently reduced 0.50 percent for each full and partial month between the pension effective date and the date the member will attain age 60. There is no mandatory retirement age.

Depending on the member's date of hire, MPSERS offers the option of participating in the defined contribution (DC) plan that provides a 50 percent employer match (up to 3 percent of salary) on employee contributions.

Members are eligible for nonduty disability benefits after 10 years of service and for duty-related disability benefits upon hire. Disability retirement benefits are determined in the same manner as retirement benefits but are payable immediately without an actuarial reduction. The disability benefits plus authorized outside earnings are limited to 100 percent of the participant's final average compensation, with an increase of 2 percent each year thereafter.

Benefits may transfer to a beneficiary upon death and are determined in the same manner as retirement benefits but with an actuarial reduction.

Benefit terms provide for annual cost of living adjustments to each employee's retirement allowance subsequent to the employee's retirement date. The annual adjustment, if applicable, is 3 percent. Some members who do not receive an annual increase are eligible to receive a supplemental payment in those years when investment earnings exceed actuarial assumptions.

MPSERS provides medical, prescription drug, dental, and vision coverage for retirees and beneficiaries. A subsidized portion of the premium is paid by MPSERS, with the balance deducted from the monthly pension of each retiree health care recipient. Depending on the member's date of hire, this subsidized portion ranges from 80 percent to the maximum allowed by the statute.

Contributions

Public Act 300 of 1980, as amended, required the School District to contribute amounts necessary to finance the coverage of pension benefits of active and retired members. Contribution provisions are specified by state statute and may be amended only by action of the state Legislature. Under these provisions, each school district's contribution is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance a portion of the unfunded accrued liability.

Under the OPEB plan, retirees electing this coverage contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent, or 20 percent for those not Medicare eligible, of the monthly premium amount for the health, dental, and vision coverage at the time of receiving the benefits. The MPSERS board of trustees annually sets the employer contribution rate to fund the benefits. Participating employers are required to contribute at that rate.

Note 12 - Michigan Public School Employees' Retirement System (Continued)

Under Public Act 300 of 2012, members were given the choice between continuing the 3 percent contribution to the retiree health care and keeping the premium subsidy benefit described above, or choosing not to pay the 3 percent 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 health care expenses in retirement. Participants in the PHF are automatically enrolled in a 2 percent employee contribution into their 457 account as of their transition date, earning them a 2 percent employer match into a 401(k) account. Members who selected this option stopped paying the 3 percent contribution to the retiree health care as of the day before their transition date, and their prior contributions were deposited into their 401(k) account.

The School District's contributions are determined based on employee elections. There are multiple different pension and health care benefit options included in the plan available to employees based on date of hire and the elections available at that time. Contribution rates are adjusted annually by the ORS.

The range of rates is as follows:

| | Pension | OPEB |
|--------------------------------------|-----------------|---------------|
| October 1, 2018 - September 30, 2019 | 13.39% - 19.59% | 7.57% - 7.93% |
| October 1, 2019 - September 30, 2020 | 13.39% - 19.59% | 7.57% - 8.09% |

Depending on the plan selected, member pension contributions range from 0 percent up to 7.0 percent of gross wages. For certain plan members, a 4 percent employer contribution to the defined contribution pension plan is required. In addition, for certain plan members, a 3 percent employer match is provided to the defined contribution pension plan.

The School District's required and actual pension contributions to the plan for the year ended June 30, 2020 were \$10,873,760, which include the School District's contributions required for those members with a defined contribution benefit. The School District's required and actual pension contributions include an allocation of \$4,323,524 in revenue received from the State of Michigan and remitted to the System to fund the MPERS unfunded actuarial accrued liability (UAAL) stabilization rate for the year ended June 30, 2020.

The School District's required and actual OPEB contributions to the plan for the year ended June 30, 2020 were \$2,842,393, which include the School District's contributions required for those members with a defined contribution benefit.

Net Pension Liability

At June 30, 2020, the School District reported a liability of \$130,611,635 for its proportionate share of the 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 as of September 30, 2018, which used update procedures to roll forward the estimated liability to September 30, 2019. The School District's proportion of the net pension liability was based on a projection of its long-term share of contributions to the pension plan relative to the projected contributions of all participating reporting units, actuarially determined. At September 30, 2019 and 2018, the School District's proportion was 0.39 percent.

June 30, 2020

Note 12 - Michigan Public School Employees' Retirement System (Continued)

Net OPEB Liability

At June 30, 2020, the School District reported a liability of \$28,147,410 for its proportionate share of the net OPEB liability. The net OPEB liability for fiscal year 2020 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 as of September 30, 2018, which used update procedures to roll forward the estimated liability to September 30, 2019. The School District's proportion of the net OPEB liability was based on a projection of its long-term share of contributions to the OPEB plan relative to the projected contributions of all participating reporting units, actuarially determined. At September 30, 2019 and 2018, the School District's proportion was 0.39 and 0.40 percent, respectively, representing a change of (1.69) percent.

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

For 2020, the School District recognized pension expense of \$21,135,509, inclusive of payments to fund the MPSERS UAAL stabilization rate. At June 30, 2020, the School 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 |
|--|--------------------------------------|-------------------------------------|
| Difference between expected and actual experience | \$ 585,443 | \$ (544,638) |
| Changes in assumptions | 25,573,850 | - |
| Net difference between projected and actual earnings on pension plan investments | - | (4,185,881) |
| Changes in proportion and differences between the School District's contributions and proportionate share of contributions | 2,575,686 | (760,081) |
| The School District's contributions to the plan subsequent to the measurement date | 9,139,054 | - |
| Total | \$ 37,874,033 | \$ (5,490,600) |

The \$4,323,524 reported as deferred inflows of resources resulting from the pension portion of state aid payments received pursuant to the UAAL payment will be recognized as state appropriations revenue for the year ending June 30, 2021. Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| Years Ending | Amount |
|--------------|---------------|
| 2021 | \$ 9,159,382 |
| 2022 | 7,635,042 |
| 2023 | 4,674,814 |
| 2024 | 1,775,141 |
| Total | \$ 23,244,379 |

In addition, the contributions subsequent to the measurement date will be included as a reduction of the net pension liability in the next year.

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

For the year ended June 30, 2020, the School District recognized OPEB expense of \$893,994.

June 30, 2020

Note 12 - Michigan Public School Employees' Retirement System (Continued)

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

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|--------------------------------------|-------------------------------------|
| Difference between expected and actual experience | \$ - | \$ (10,328,081) |
| Changes in assumptions | 6,098,974 | - |
| Net difference between projected and actual earnings on OPEB plan investments | - | (489,497) |
| Changes in proportionate share or difference between amount contributed and proportionate share of contributions | 1,039,135 | (564,566) |
| Employer contributions to the plan subsequent to the measurement date | 2,022,035 | - |
| Total | <u>\$ 9,160,144</u> | <u>\$ (11,382,144)</u> |

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows (note that employer contributions subsequent to the measurement date will reduce the net OPEB liability and, therefore, will not be included in future OPEB expense):

| Years Ending | Amount |
|--------------|-----------------------|
| 2021 | \$ (1,136,348) |
| 2022 | (1,136,348) |
| 2023 | (905,644) |
| 2024 | (641,560) |
| 2025 | (424,135) |
| Total | <u>\$ (4,244,035)</u> |

Actuarial Assumptions

The total pension liability and total OPEB liability as of September 30, 2019 are based on the results of an actuarial valuation as of September 30, 2018 and rolled forward. The total pension liability and OPEB liability were determined using the following actuarial assumptions:

| | | |
|-------------------------------------|----------------|---|
| Actuarial cost method | | Entry age normal |
| Investment rate of return - Pension | 6.00% - 6.80% | Net of investment expenses based on the groups |
| Investment rate of return - OPEB | 6.95% | Net of investment expenses based on the groups |
| Salary increases | 2.75% - 11.55% | Including wage inflation of 2.75% |
| Health care cost trend rate - OPEB | 7.50% | Year 1 graded to 3.5% year 12 |
| Mortality basis | | RP-2014 Male and Female Employee Annuitant Mortality tables, scaled 100% (retirees: 82% for males and 78% for females) and adjusted for mortality improvements using projection scale MP-2017 from 2006 |
| Cost of living pension adjustments | 3.00% | Annual noncompounded for MIP members |

Assumption changes as a result of an experience study for the periods from 2012 to 2017 have been adopted by the System for use in the annual pension and OPEB valuations beginning with the September 30, 2017 valuation.

Note 12 - Michigan Public School Employees' Retirement System (Continued)

Significant assumption changes since the prior measurement date, September 30, 2018, for pension and OPEB include a reduction in both discount rates, continued impact of the updated experience study that resulted in lower than projected per person health benefit costs for OPEB, and favorable investment experience for both plans. There were no significant benefit terms changes for the pension or OPEB plans since the prior measurement date of September 30, 2018.

Discount Rate

The discount rate used to measure the total pension liability was 6.00 to 6.80 percent as of September 30, 2019, depending on the plan option. The discount rate used to measure the total OPEB liability was 6.95 percent as of September 30, 2019. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that district contributions will be made at statutorily required rates.

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

The long-term expected rate of return on pension plan and 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 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. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

| Asset Class | Target Allocation | Long-term Expected Real Rate of Return |
|--------------------------------------|-------------------|--|
| Domestic equity pools | 28.00 % | 5.50 % |
| Private equity pools | 18.00 | 8.60 |
| International equity pools | 16.00 | 7.30 |
| Fixed-income pools | 10.50 | 1.20 |
| Real estate and infrastructure pools | 10.00 | 4.20 |
| Absolute return pools | 15.50 | 5.40 |
| Short-term investment pools | 2.00 | 0.80 |
| Total | 100.00 % | |

Long-term rates of return are net of administrative expense and inflation of 2.3 percent.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the School District, calculated using the discount rate depending on the plan option. The following also reflects what the School District's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

| | 1 Percentage Point Decrease (5.00 - 5.80%) | Current Discount Rate (6.00 - 6.80%) | 1 Percentage Point Increase (7.00 - 7.80%) |
|--|--|--|--|
| Net pension liability of the School District | \$ 169,803,482 | \$ 130,611,635 | \$ 98,120,245 |

June 30, 2020

Note 12 - Michigan Public School Employees' Retirement System (Continued)

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

The following presents the net OPEB liability of the School District, calculated using the current discount rate. It also reflects what the School District's net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

| | 1 Percentage Point Decrease (5.95%) | Current Discount Rate (6.95%) | 1 Percentage Point Increase (7.95%) |
|---|---|-------------------------------------|---|
| Net OPEB liability of the School District | \$ 34,527,028 | \$ 28,147,410 | \$ 22,790,303 |

Sensitivity of the Net OPEB Liability to Changes in the Health Care Cost Trend Rate

The following presents the net OPEB liability of the School District, calculated using the current health care cost trend rate. It also reflects what the School District's net OPEB liability would be if it were calculated using a health care cost trend rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

| | 1 Percentage Point Decrease (6.50%) | Current Rate (7.50%) | 1 Percentage Point Increase (8.50%) |
|---|---|-------------------------|---|
| Net OPEB liability of the School District | \$ 22,563,184 | \$ 28,147,410 | \$ 34,526,271 |

Pension Plan and OPEB Plan Fiduciary Net Position

Detailed information about the plan's fiduciary net position is available in the separately issued MPSERS financial report.

Payable to the Pension Plan and OPEB Plan

At June 30, 2020, the School District reported a payable of \$1,796,301 and \$259,012 for the outstanding amount of contributions to the pension plan and OPEB plan, respectively, required for the year ended June 30, 2020.

Note 13 - Tax Abatements

The School District receives reduced property tax revenue as a result of industrial facilities tax exemptions (PA 198 of 1974) and brownfield redevelopment agreements granted by cities, villages, and townships within the boundaries of the School District. Industrial facility exemptions are intended to promote construction of new industrial facilities or to rehabilitate historical facilities, and brownfield redevelopment agreements are intended to reimburse taxpayers that remediate environmental contamination on their properties.

For the fiscal year ended June 30, 2020, the School District's property tax revenue was reduced by approximately \$158,000 under these programs.

The School District is reimbursed for lost revenue caused by tax abatements on the operating millage of nonhomestead properties from the State of Michigan under the school aid formula. The School District received approximately \$77,000 in reimbursements from the State of Michigan. The School District is not reimbursed for lost revenue from the Sinking Fund or debt service millages. There are no abatements made by the School District.

Required Supplemental Information

Saline Area Schools

**Required Supplemental Information
Budgetary Comparison Schedule - General Fund**

Year Ended June 30, 2020

| | Original Budget | Final Budget | Actual | Over (Under) Final Budget |
|--|---------------------|---------------------|---------------------|------------------------------|
| Revenue | | | | |
| Local sources | \$ 8,212,592 | \$ 8,148,621 | \$ 8,209,606 | \$ 60,985 |
| State sources | 45,530,775 | 44,460,646 | 43,714,478 | (746,168) |
| Federal sources | 1,452,199 | 1,348,467 | 1,422,115 | 73,648 |
| Interdistrict sources | 8,790,975 | 9,419,925 | 9,429,154 | 9,229 |
| Total revenue | 63,986,541 | 63,377,659 | 62,775,353 | (602,306) |
| Expenditures | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Basic programs | 29,516,599 | 29,478,415 | 29,194,198 | (284,217) |
| Added needs | 10,090,758 | 8,878,958 | 8,688,231 | (190,727) |
| Support services: | | | | |
| Pupil | 7,483,014 | 7,794,605 | 7,713,150 | (81,455) |
| Instructional staff | 2,637,444 | 2,414,666 | 2,382,412 | (32,254) |
| General administration | 762,299 | 727,418 | 616,738 | (110,680) |
| School administration | 3,296,032 | 3,248,379 | 3,168,226 | (80,153) |
| Business | 783,670 | 771,475 | 714,077 | (57,398) |
| Operations and maintenance | 4,892,967 | 4,723,509 | 4,356,610 | (366,899) |
| Pupil transportation services | 1,844,077 | 1,726,456 | 1,640,839 | (85,617) |
| Central | 1,723,404 | 1,556,142 | 1,412,984 | (143,158) |
| Other | 214,345 | 136,900 | 134,379 | (2,521) |
| Athletics | 1,424,603 | 1,235,345 | 1,138,586 | (96,759) |
| Community services | 14,259 | 19,731 | 24,636 | 4,905 |
| Debt service - Interest | 96,000 | 163,800 | 163,774 | (26) |
| Total expenditures | 64,779,471 | 62,875,799 | 61,348,840 | (1,526,959) |
| Excess of Revenue (Under) Over Expenditures | (792,930) | 501,860 | 1,426,513 | 924,653 |
| Other Financing Sources (Uses) | | | | |
| Proceeds from sale of capital assets | 808,882 | - | - | - |
| Transfers in | 300,000 | - | - | - |
| Transfers out | (57,000) | (164,000) | (165,594) | (1,594) |
| Total other financing sources (uses) | 1,051,882 | (164,000) | (165,594) | (1,594) |
| Net Change in Fund Balance | 258,952 | 337,860 | 1,260,919 | 923,059 |
| Fund Balance - Beginning of year | 2,886,021 | 2,886,021 | 2,886,021 | - |
| Fund Balance - End of year | <u>\$ 3,144,973</u> | <u>\$ 3,223,881</u> | <u>\$ 4,146,940</u> | <u>\$ 923,059</u> |

Saline Area Schools

Required Supplemental Information Schedule of Proportionate Share of the Net Pension Liability Michigan Public School Employees' Retirement System

Last Six Plan Years Plan Years Ended September 30

| | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|----------------|----------------|---------------|---------------|---------------|---------------|
| School District's proportion of the net pension liability | 0.39440 % | 0.39374 % | 0.38353 % | 0.37190 % | 0.38855 % | 0.36904 % |
| School District's proportionate share of the net pension liability | \$ 130,611,635 | \$ 118,365,313 | \$ 99,389,715 | \$ 92,784,977 | \$ 94,904,062 | \$ 81,286,407 |
| School District's covered payroll | \$ 34,308,225 | \$ 34,000,021 | \$ 32,877,547 | \$ 30,839,024 | \$ 33,067,122 | \$ 30,326,343 |
| School District's proportionate share of the net pension liability as a percentage of its covered payroll | 380.70 % | 348.13 % | 302.30 % | 300.87 % | 287.00 % | 268.04 % |
| Plan fiduciary net position as a percentage of total pension liability | 60.08 % | 62.12 % | 63.96 % | 63.01 % | 62.92 % | 66.20 % |

Saline Area Schools

Required Supplemental Information
Schedule of Pension Contributions
Michigan Public School Employees' Retirement System

| | Last Six Fiscal Years | | | | | |
|--|------------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| | Years Ended June 30 | | | | | |
| | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 |
| Statutorily required contribution | \$ 10,650,304 | \$ 10,571,853 | \$ 10,145,632 | \$ 9,335,716 | \$ 8,702,307 | \$ 6,668,455 |
| Contributions in relation to the statutorily required contribution | 10,650,304 | 10,571,853 | 10,145,632 | 9,335,716 | 8,702,307 | 6,668,455 |
| Contribution Deficiency | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| School District's Covered Payroll | \$ 33,390,048 | \$ 34,192,993 | \$ 33,808,716 | \$ 34,530,890 | \$ 30,780,754 | \$ 31,294,444 |
| Contributions as a Percentage of Covered Payroll | 31.90 % | 30.92 % | 30.01 % | 27.04 % | 28.27 % | 21.31 % |

Saline Area Schools

Required Supplemental Information Schedule of Proportionate Share of the Net OPEB Liability Michigan Public School Employees' Retirement System

Last Three Plan Years Plan Years Ended September 30

| | 2019 | 2018 | 2017 |
|--|---------------|---------------|---------------|
| School District's proportion of the net OPEB liability | 0.39215 % | 0.39888 % | 0.38234 % |
| School District's proportionate share of the net OPEB liability | \$ 28,147,410 | \$ 31,707,172 | \$ 33,857,577 |
| School District's covered payroll | \$ 34,308,225 | \$ 34,000,021 | \$ 32,877,547 |
| School District's proportionate share of the net OPEB liability as a percentage of its covered payroll | 82.04 % | 93.26 % | 102.98 % |
| Plan fiduciary net position as a percentage of total OPEB liability | 48.67 % | 43.10 % | 36.53 % |

Saline Area Schools

Required Supplemental Information Schedule of OPEB Contributions Michigan Public School Employees' Retirement System

Last Three Fiscal Years Years Ended June 30

| | 2020 | 2019 | 2018 |
|--|----------------------|----------------------|----------------------|
| Statutorily required contribution | \$ 2,683,091 | \$ 2,685,868 | \$ 2,441,911 |
| Contributions in relation to the statutorily required contribution | 2,683,091 | 2,685,868 | 2,441,911 |
| Contribution Deficiency | \$ - | \$ - | \$ - |
| School District's Covered Payroll | \$ 33,390,048 | \$ 34,192,993 | \$ 33,808,716 |
| Contributions as a Percentage of Covered Payroll | 8.04 % | 7.86 % | 7.22 % |

June 30, 2020

Pension Information

Ultimately, 10 years of data will be presented in both of the pension-related schedules. The number of years currently presented represents the number of years since the accounting standard requiring these schedules first became applicable.

Benefit Changes

There were no changes of benefit terms for each of the reported plan years ended September 30.

Changes in Assumptions

There were no significant changes of assumptions for each of the reported plan years ended September 30 except for the following:

- 2019 - The discount rate used in the September 30, 2018 actuarial valuation decreased by 0.25 percentage points.
- 2018 - The discount rate used in the September 30, 2017 actuarial valuation decreased by 0.45 percentage points. The valuation also includes the impact of an updated experience study for the periods from 2012 to 2017.
- 2017 - The discount rate used in the September 30, 2016 actuarial valuation decreased by 0.50 percentage points.

OPEB Information

Ultimately, 10 years of data will be presented in both of the OPEB-related schedules. The number of years currently presented represents the number of years since the accounting standard requiring these schedules first became applicable.

Benefit Changes

There were no changes of benefit terms for each of the reported plan years ended September 30.

Changes in Assumptions

There were no significant changes of assumptions for each of the reported plan years ended September 30 except for the following:

- 2019 - The discount rate used in the September 30, 2018 actuarial valuation decreased by 0.20 percentage points. The valuation also includes the impact of an updated experience study for the periods from 2012 to 2017. This resulted in lower than projected per person health benefit costs to reduce the plan's total OPEB liability by an additional \$1.4 billion in 2019.
- 2018 - The discount rate used in the September 30, 2017 actuarial valuation decreased by 0.35 percentage points. The valuation also includes the impact of an updated experience study for the periods from 2012 to 2017. This resulted in lower than projected per person health benefit costs to reduce the plan's total OPEB liability by \$1.4 billion in 2018.

Other Supplemental Information

Saline Area Schools

Other Supplemental Information Combining Balance Sheet Nonmajor Governmental Funds

June 30, 2020

| | Special Revenue Funds | | | Debt Service Funds | | | Capital Projects Funds | | | Total Nonmajor Governmental Funds | |
|--|-----------------------|--------------------------------------|---------------------------|-----------------------------|------------------------|------------------------|-----------------------------|--------------------------------|-------------------|-----------------------------------|---------------------|
| | Food Service Fund | Community Services and Programs Fund | Vocational Education Fund | Refunding Debt Service Fund | 2016 Debt Service Fund | 2018 Debt Service Fund | 2016 SBLF Debt Service Fund | Maintenance and Equipment Fund | 2010 Sinking Fund | | 2018 Sinking Fund |
| Assets | | | | | | | | | | | |
| Cash and cash equivalents | \$ 8,312 | \$ 696,208 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 704,520 |
| Receivables | 81,964 | - | 330,029 | - | - | - | - | - | - | - | 411,993 |
| Due from other funds | 80,381 | 10,000 | - | 523,712 | 1,862,452 | - | - | 205,870 | 109,927 | 1,391 | 2,793,733 |
| Inventory | 35,071 | - | - | - | - | - | - | - | - | - | 35,071 |
| Restricted assets | - | - | - | 77,919 | 23,824 | 7,919 | 74,035 | - | 401,007 | 696,599 | 1,281,303 |
| Total assets | \$ 205,728 | \$ 706,208 | \$ 330,029 | \$ 601,631 | \$ 1,886,276 | \$ 7,919 | \$ 74,035 | \$ 205,870 | \$ 510,934 | \$ 697,990 | \$ 5,226,620 |
| Liabilities | | | | | | | | | | | |
| Accounts payable | \$ 43,708 | \$ 29,982 | \$ 21,076 | \$ 2,027 | \$ 626 | \$ 209 | \$ 1,907 | \$ - | \$ 86,882 | \$ 95,522 | \$ 281,939 |
| Due to other funds | - | 204,656 | 126,534 | - | - | 287,553 | 1,907,812 | - | - | - | 2,526,555 |
| Accrued payroll-related liabilities | 1 | 157 | 367 | - | - | - | - | - | - | - | 525 |
| Unearned revenue | 127,971 | 27,812 | - | - | - | - | - | - | - | - | 155,783 |
| Total liabilities | 171,680 | 262,607 | 147,977 | 2,027 | 626 | 287,762 | 1,909,719 | - | 86,882 | 95,522 | 2,964,802 |
| Fund Balances | | | | | | | | | | | |
| Nonspendable - Inventory | 35,071 | - | - | - | - | - | - | - | - | - | 35,071 |
| Restricted: | | | | | | | | | | | |
| Debt service | - | - | - | 599,604 | 1,885,650 | - | - | - | - | - | 2,485,254 |
| Community service | - | 443,601 | - | - | - | - | - | - | - | - | 443,601 |
| Sinking fund | - | - | - | - | - | - | - | - | 424,052 | 602,468 | 1,026,520 |
| Vocational education | - | - | 182,052 | - | - | - | - | - | - | - | 182,052 |
| Assigned - Capital projects | - | - | - | - | - | - | - | 205,870 | - | - | 205,870 |
| Unassigned | (1,023) | - | - | - | - | (279,843) | (1,835,684) | - | - | - | (2,116,550) |
| Total fund balances | 34,048 | 443,601 | 182,052 | 599,604 | 1,885,650 | (279,843) | (1,835,684) | 205,870 | 424,052 | 602,468 | 2,261,818 |
| Total liabilities and fund balances | \$ 205,728 | \$ 706,208 | \$ 330,029 | \$ 601,631 | \$ 1,886,276 | \$ 7,919 | \$ 74,035 | \$ 205,870 | \$ 510,934 | \$ 697,990 | \$ 5,226,620 |

Saline Area Schools

Other Supplemental Information Combining Statement of Revenue, Expenditures, and Changes in Fund Balances Nonmajor Governmental Funds

Year Ended June 30, 2020

| | Special Revenue Funds | | | Debt Service Funds | | | Capital Projects Funds | | | Total Nonmajor Governmental Funds | |
|--|-----------------------|--------------------------------------|---------------------------|-----------------------------|------------------------|------------------------|-----------------------------|--------------------------------|-------------------|-----------------------------------|---------------------|
| | Food Service Fund | Community Services and Programs Fund | Vocational Education Fund | Refunding Debt Service Fund | 2016 Debt Service Fund | 2018 Debt Service Fund | 2016 SBLF Debt Service Fund | Maintenance and Equipment Fund | 2010 Sinking Fund | | 2018 Sinking Fund |
| Revenue | | | | | | | | | | | |
| Local sources | \$ 819,707 | \$ 3,016,768 | \$ 20,098 | \$ 6,375,779 | \$ 1,966,650 | \$ 655,414 | \$ 6,006,576 | \$ - | \$ 7,615 | \$ 653,725 | \$ 19,522,332 |
| State sources | 97,452 | 141,383 | 432,455 | 145,404 | 44,904 | 14,968 | 136,851 | - | - | 17,048 | 1,030,465 |
| Federal sources | 513,471 | - | 242,771 | - | - | - | - | - | - | - | 756,242 |
| Interdistrict sources | - | - | 884,431 | - | - | - | - | - | - | - | 884,431 |
| Total revenue | 1,430,630 | 3,158,151 | 1,579,755 | 6,521,183 | 2,011,554 | 670,382 | 6,143,427 | - | 7,615 | 670,773 | 22,193,470 |
| Expenditures | | | | | | | | | | | |
| Current: | | | | | | | | | | | |
| Instruction | - | - | 489,086 | - | - | - | - | - | - | - | 489,086 |
| Support services | - | - | 868,632 | - | - | - | - | - | - | - | 868,632 |
| Food services | 1,516,615 | - | - | - | - | - | - | - | - | - | 1,516,615 |
| Community services | - | 3,020,793 | - | - | - | - | - | - | - | - | 3,020,793 |
| Debt service: | | | | | | | | | | | |
| Principal | - | - | - | 5,115,000 | 875,000 | 250,000 | 6,845,000 | - | - | - | 13,085,000 |
| Interest | - | - | - | 2,504,400 | 1,567,025 | 518,400 | 302,040 | - | - | - | 4,891,865 |
| Other | - | - | - | 500 | 1,333 | 500 | 2,905 | - | - | - | 5,238 |
| Capital outlay | 81 | 3,368 | 36,707 | - | - | - | - | 51,888 | 457,230 | 235,079 | 784,353 |
| Interdistrict payments | - | - | 164,064 | - | - | - | - | - | - | - | 164,064 |
| Total expenditures | 1,516,696 | 3,024,161 | 1,558,489 | 7,619,900 | 2,443,358 | 768,900 | 7,149,945 | 51,888 | 457,230 | 235,079 | 24,825,646 |
| Excess of Revenue (Under) Over Expenditures | (86,066) | 133,990 | 21,266 | (1,098,717) | (431,804) | (98,518) | (1,006,518) | (51,888) | (449,615) | 435,694 | (2,632,176) |
| Other Financing Sources | | | | | | | | | | | |
| School Bond Loan Revolving Fund proceeds | - | - | - | 771,644 | 335,313 | 77,854 | 725,189 | - | - | - | 1,910,000 |
| Transfers in | 103,000 | - | - | - | - | - | - | 62,594 | - | - | 165,594 |
| Total other financing sources | 103,000 | - | - | 771,644 | 335,313 | 77,854 | 725,189 | 62,594 | - | - | 2,075,594 |
| Net Change in Fund Balances | 16,934 | 133,990 | 21,266 | (327,073) | (96,491) | (20,664) | (281,329) | 10,706 | (449,615) | 435,694 | (556,582) |
| Fund Balances - Beginning of year | 17,114 | 309,611 | 160,786 | 926,677 | 1,982,141 | (259,179) | (1,554,355) | 195,164 | 873,667 | 166,774 | 2,818,400 |
| Fund Balances - End of year | \$ 34,048 | \$ 443,601 | \$ 182,052 | \$ 599,604 | \$ 1,885,650 | \$ (279,843) | \$ (1,835,684) | \$ 205,870 | \$ 424,052 | \$ 602,468 | \$ 2,261,818 |

Saline Area Schools

Other Supplemental Information Schedule of Bonded Indebtedness

June 30, 2020

| Years Ending June 30 | 2018 Refunding | 2016 SBLF Debt | Building and Site | Building and Site | Total |
|--------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| | Debt Service | Service | - Series I | - Series II | |
| | Principal | Principal | Principal | Principal | |
| 2021 | \$ 5,095,000 | \$ 7,130,000 | \$ 975,000 | \$ 325,000 | \$ 13,525,000 |
| 2022 | 4,930,000 | - | 1,000,000 | 725,000 | 6,655,000 |
| 2023 | 4,905,000 | - | 1,075,000 | 325,000 | 6,305,000 |
| 2024 | 4,885,000 | - | 1,200,000 | 375,000 | 6,460,000 |
| 2025 | 4,835,000 | - | 1,350,000 | 475,000 | 6,660,000 |
| 2026 | 4,785,000 | - | 1,500,000 | 550,000 | 6,835,000 |
| 2027 | 4,735,000 | - | 1,625,000 | 600,000 | 6,960,000 |
| 2028 | 4,680,000 | - | 1,750,000 | 650,000 | 7,080,000 |
| 2029 | 4,620,000 | - | 1,850,000 | 700,000 | 7,170,000 |
| 2030 | 4,560,000 | - | 1,950,000 | 750,000 | 7,260,000 |
| 2031 | - | - | 2,450,000 | 800,000 | 3,250,000 |
| 2032 | - | - | 2,550,000 | 825,000 | 3,375,000 |
| 2033 | - | - | 2,650,000 | 850,000 | 3,500,000 |
| 2034 | - | - | 2,750,000 | 875,000 | 3,625,000 |
| 2035 | - | - | 2,850,000 | 900,000 | 3,750,000 |
| 2036 | - | - | 2,950,000 | 975,000 | 3,925,000 |
| 2037 | - | - | - | 1,000,000 | 1,000,000 |
| 2038 | - | - | - | 1,010,000 | 1,010,000 |
| Total remaining payments | \$ 48,030,000 | \$ 7,130,000 | \$ 30,475,000 | \$ 12,710,000 | \$ 98,345,000 |
| Principal payments due | May 1 | May 1 | May 1 | May 1 | |
| Interest payments due | May 1 and November 1 | May 1 and November 1 | May 1 and November 1 | May 1 and November 1 | |
| Interest rate | 2.00 - 5.00% | 2.26% | 5.00% | 4.00% | |
| Original issue | \$ 58,265,000 | \$ 30,335,000 | \$ 34,140,000 | \$ 12,960,000 | |

Saline Area Schools

Federal Awards Supplemental Information
June 30, 2020

Independent Auditor's Reports

| | |
|---|------|
| Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance | 1 |
| Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> | 2-3 |
| Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance | 4-5 |
| Schedule of Expenditures of Federal Awards | 6-7 |
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Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

Independent Auditor's Report

To the Board of Education
Saline Area Schools

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Saline Area Schools (the "School District") as of and for the year ended June 30, 2020 and the related notes to the financial statements, which collectively comprise the School District's basic financial statements. We issued our report thereon dated October 19, 2020, which contained unmodified opinions on the financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. We have not performed any procedures with respect to the audited financial statements subsequent to October 19, 2020.

The accompanying schedule of expenditures of federal awards is presented for the purpose of additional analysis, as required by the Uniform Guidance, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Plante & Moran, PLLC

October 19, 2020

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

Independent Auditor's Report

To Management and the Board of Education
Saline Area Schools

We have audited, 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, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Saline Area Schools (the "School District") as of and for the year ended June 30, 2020 and the related notes to the financial statements, which collectively comprise the School District's basic financial statements, and have issued our report thereon dated October 19, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the School District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the School 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 School District'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 School District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

To Management and the Board of Education
Saline Area Schools

Purpose of This Report

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

Plante & Moran, PLLC

October 19, 2020

Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance
Required by the Uniform Guidance

Independent Auditor's Report

To the Board of Education
Saline Area Schools

Report on Compliance for Each Major Federal Program

We have audited Saline Area Schools' (the "School District") compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Compliance Supplement that could have a direct and material effect on the School District's major federal program for the year ended June 30, 2020. The School District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the School 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* (the "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 School 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 School District's compliance.

Opinion on Each Major Federal Program

In our opinion, the School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2020.

To the Board of Education
Saline Area Schools

Report on Internal Control Over Compliance

Management of the School 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 School 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 School 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 a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

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

Plante & Moran, PLLC

October 19, 2020

Saline Area Schools

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2020

| Federal Agency/Pass-through Agency/Program Title | Pass-through Entity Identifying Number | CFDA Number | Award Amount | (Memo Only) Prior Year Expenditures | Accrued Revenue at July 1, 2019 | Adjustments and Transfers | Federal Funds/ Payments In-kind Received | Federal Expenditures | Accrued Revenue at June 30, 2020 | Current Year Cash Transferred to Subrecipients |
|---|--|-------------|--------------|-------------------------------------|---------------------------------|---------------------------|--|----------------------|----------------------------------|--|
| Clusters: | | | | | | | | | | |
| Child Nutrition Cluster - U.S. Department of Agriculture - Passed through the Michigan Department of Education: | | | | | | | | | | |
| Noncash Assistance (Commodities) - | | | | | | | | | | |
| National Lunch Program Commodities 2019-20 | N/A | 10.555 | \$ 78,193 | \$ - | \$ - | \$ - | \$ 78,193 | \$ 78,193 | \$ - | \$ - |
| Cash Assistance: | | | | | | | | | | |
| National School Lunch Program 2018-19 | 191960 | 10.555 | 248,723 | 236,259 | - | 12,464 | 12,464 | - | - | - |
| National School Lunch Program 2019-20 | 201960 | 10.555 | 185,850 | - | - | - | 185,850 | 185,850 | - | - |
| COVID-19 - Unanticipated School Closures Program 2019-20 | 200902 | 10.555 | 224,957 | - | - | - | 152,208 | 224,957 | 72,749 | - |
| Total National School Lunch Program (not incl. commodities) | | 10.555 | 659,530 | 236,259 | - | 12,464 | 350,522 | 410,807 | 72,749 | - |
| National School Breakfast Program 2018-19 | 191970 | 10.553 | 32,162 | 30,084 | - | 2,078 | 2,078 | - | - | - |
| National School Breakfast Program 2019-20 | 201970 | 10.553 | 24,471 | - | - | - | 24,471 | 24,471 | - | - |
| Total National School Breakfast Program | | 10.553 | 56,633 | 30,084 | - | 2,078 | 26,549 | 24,471 | - | - |
| Total Cash Assistance | | | 716,163 | 266,343 | - | 14,542 | 377,071 | 435,278 | 72,749 | - |
| Total Child Nutrition Cluster | | | 794,356 | 266,343 | - | 14,542 | 455,264 | 513,471 | 72,749 | - |
| Special Education Cluster - U.S. Department of Education - Passed through the Washtenaw County ISD: | | | | | | | | | | |
| IDEA Flowthrough: | | | | | | | | | | |
| IDEA Flowthrough 2018-19 | 190450 | 84.027 | 1,132,672 | 1,132,672 | 576,196 | - | 576,196 | - | - | - |
| IDEA Flowthrough 2019-20 | 200450 | 84.027 | 1,123,252 | - | - | - | - | 1,123,252 | 1,123,252 | - |
| Total IDEA, Part B | | 84.027 | 2,255,924 | 1,132,672 | 576,196 | - | 576,196 | 1,123,252 | 1,123,252 | - |
| IDEA Preschool Incentive - IDEA Preschool 2019-20 | 200460 | 84.173 | 26,415 | - | - | - | - | 26,415 | 26,415 | - |
| Total Special Education Cluster | | | 2,282,339 | 1,132,672 | 576,196 | - | 576,196 | 1,149,667 | 1,149,667 | - |
| Total for all clusters | | | 3,076,695 | 1,399,015 | 576,196 | 14,542 | 1,031,460 | 1,663,138 | 1,222,416 | - |

Saline Area Schools

Schedule of Expenditures of Federal Awards (Continued)

Year Ended June 30, 2020

| Federal Agency/Pass-through Agency/Program Title | Pass-through Entity Identifying Number | CFDA Number | Award Amount | (Memo Only) Prior Year Expenditures | Accrued Revenue at July 1, 2019 | Adjustments and Transfers | Federal Funds/ Payments In-kind Received | Federal Expenditures | Accrued Revenue at June 30, 2020 | Current Year Cash Transferred to Subrecipients |
|---|--|-------------|--------------|-------------------------------------|---------------------------------|---------------------------|--|----------------------|----------------------------------|--|
| Other federal awards: | | | | | | | | | | |
| Passed through the Michigan Department of Education: | | | | | | | | | | |
| Title I, Part A: | | | | | | | | | | |
| Title I, Part A 2018-19 | 191530 | 84.010 | \$ 95,422 | \$ 95,422 | \$ 47,368 | \$ - | \$ 47,368 | \$ - | \$ - | \$ - |
| Title I, Part A 2019-20 | 201530 | 84.010 | 93,813 | - | - | - | - | 93,813 | 93,813 | - |
| Total Title I, Part A | | 84.010 | 189,235 | 95,422 | 47,368 | - | 47,368 | 93,813 | 93,813 | - |
| Improving Teacher Quality, Title II - Part A: | | | | | | | | | | |
| Title II, Part A 2018-19 | 190520 | 84.367 | 101,046 | 101,046 | 2,656 | - | 2,656 | - | - | - |
| Title II, Part A 2019-20 | 200520 | 84.367 | 74,618 | - | - | - | - | 74,618 | 74,618 | - |
| Total Title II, Part A | | 84.367 | 175,664 | 101,046 | 2,656 | - | 2,656 | 74,618 | 74,618 | - |
| Title III, Part A - Language for Immigrant Students: | | | | | | | | | | |
| Title III, Part A 2018-19 | 190570 | 84.365 | 7,014 | 6,292 | 6,292 | - | 6,292 | - | - | - |
| Title III, Part A 2019-20 | 200570 | 84.365 | 3,461 | - | - | - | - | 3,461 | 3,461 | - |
| Total Title III - Language for Immigrant Students | | 84.048 | 10,475 | 6,292 | 6,292 | - | 6,292 | 3,461 | 3,461 | - |
| Title IV, Part A: | | | | | | | | | | |
| Title IV, Part A - Title IV, Part A 2018-19 | 190750 | 84.424 | 10,000 | 10,000 | 10,000 | - | 10,000 | - | - | - |
| Title IV, Part A - Title IV, Part A 2019-20 | 200750 | 84.424 | 10,000 | - | - | - | - | 10,000 | 10,000 | - |
| Total Title IV, Part A | | 84.424 | 20,000 | 10,000 | 10,000 | - | 10,000 | 10,000 | 10,000 | - |
| COVID-19 - Elementary & Secondary School Emergency Relief 2019-20 | 203710 | 84.425 | 76,777 | - | - | - | - | 76,777 | 76,777 | - |
| Total noncluster programs passed through the Michigan Department of Education | | | 472,151 | 212,760 | 66,316 | - | 66,316 | 258,669 | 258,669 | - |
| Passed through Washtenaw County ISD - | | | | | | | | | | |
| Vocational Education - Basic Grants to States (Perkins): | | | | | | | | | | |
| Vocational Education 2018-19 | 193520/121223 | 84.048 | 241,992 | 241,992 | 105,871 | - | 105,871 | - | - | - |
| Vocational Education 2019-20 | 203520/121223 | 84.048 | 235,331 | - | - | - | 175,996 | 242,771 | 66,775 | - |
| Total Vocational Education | | 84.048 | 477,323 | 241,992 | 105,871 | - | 281,867 | 242,771 | 66,775 | - |
| Title III - Limited English Proficient: | | | | | | | | | | |
| Title III 2018-19 | 190580 | 84.365 | 18,665 | 5,517 | 5,517 | - | 5,517 | - | - | - |
| Title III 2019-20 | 200580 | 84.365 | 20,252 | - | - | - | - | 13,779 | 13,779 | - |
| Total Title III - Limited English Proficient | | 84.365 | 38,917 | 5,517 | 5,517 | - | 5,517 | 13,779 | 13,779 | - |
| Total noncluster programs passed through the Washtenaw County ISD | | | 516,240 | 247,509 | 111,388 | - | 287,384 | 256,550 | 80,554 | - |
| Total federal awards | | | \$ 4,065,086 | \$ 1,859,284 | \$ 753,900 | \$ 14,542 | \$ 1,385,160 | \$ 2,178,357 | \$ 1,561,639 | \$ - |

Notes to Schedule of Expenditures of Federal Awards

Year Ended June 30, 2020

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of Saline Area Schools (the "School District") under programs of the federal government for the year ended June 30, 2020. The information in the 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* (the "Uniform Guidance"). Because the Schedule presents only a selected portion of the operations of the School District, it is not intended to and does not present the financial position, changes in net position, or cash flows of the School District.

Note 2 - Summary of Significant Accounting Policies

Expenditures reported in the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following, as applicable, the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

The School District has elected not to use the 10 percent *de minimis* indirect cost rate to recover indirect costs, as allowed under the Uniform Guidance.

Note 3 - Grant Auditor Report

Management has utilized the Cash Management System (CMS) Grant Auditor Report in preparing the schedule of expenditures of federal awards. Unreconciled differences, if any, have been disclosed to the auditor.

Note 4 - Noncash Assistance

The value of the noncash assistance received was determined in accordance with the provisions of the Uniform Guidance.

Note 5 - Adjustments and Transfers

Adjustments of \$14,542 in the Child Nutrition Cluster (CFDA# 10.553 and 10.555) resulted from grant adjustments.

Schedule of Findings and Questioned Costs

Schedule of Findings and Questioned Costs

Year Ended June 30, 2020

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

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

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? _____ Yes X No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? _____ Yes X None reported
- Any audit findings disclosed that are required to be reported in accordance with Section 2 CFR 200.516(a)? _____ Yes X No

Identification of major programs:

| CFDA Number | Name of Federal Program or Cluster | Opinion |
|----------------|------------------------------------|------------|
| 84.027, 84.173 | Special Education Cluster | Unmodified |

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

Auditee qualified as low-risk auditee? X Yes _____ No

Section II - Financial Statement Audit Findings

| Reference Number | Finding |
|---------------------|---------|
| Current Year | None |

Section III - Federal Program Audit Findings

| Reference Number | Finding | Questioned Costs |
|---------------------|---------|------------------|
| Current Year | None | |

Saline Area Schools

Report to the Board of Education

June 30, 2020

To the Board of Education
Saline Area Schools

We have recently completed our audit of the basic financial statements of Saline Area Schools (the "School District") as of and for the year ended June 30, 2020. In addition to our audit report, we are providing the following results of the audit, summary of unrecorded possible adjustments, and informational items that impact the School District:

| | <u>Page</u> |
|---|-------------|
| Results of the Audit | 1-4 |
| Summary of Unrecorded Possible Adjustments | 5-6 |
| Informational Items | 7-15 |

We are grateful for the opportunity to be of service to Saline Area Schools. We would also like to extend our thanks to Ms. Miranda Owsley and the entire business office for their assistance and preparedness during the audit. We recognize that preparing for the audit is carried out in addition to your staff's normal daily activities. Should you have any questions regarding the comments in this report, please do not hesitate to call.

Plante & Moran, PLLC

October 19, 2020

Results of the Audit

October 19, 2020

To the Board of Education
Saline Area Schools

We have audited the financial statements of Saline Area Schools (the "School District") as of and for the year ended June 30, 2020 and have issued our report thereon dated October 19, 2020. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated May 18, 2020, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities. Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement.

As part of our audit, we considered the internal control of the School District. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

Our audit of the School District's financial statements has also been conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. Under *Government Auditing Standards*, we are obligated to communicate certain matters that come to our attention related to our audit to those responsible for the governance of the School District, including compliance with certain provisions of laws, regulations, contracts, and grant agreements; certain instances of error or fraud; illegal acts applicable to government agencies; and significant deficiencies in internal control that we identify during our audit. Toward this end, we issued a separate letter dated October 19, 2020 regarding our consideration of the School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on September 11, 2020.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the School District are described in Note 2 to the financial statements.

No new accounting policies were adopted, and the application of existing policies was not changed during fiscal year 2020.

We noted no transactions entered into by the School District during the year for which there is a lack of authoritative guidance or consensus.

We noted no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were the School District's share of the MPERS net liabilities for the pension and other postemployment benefit (OPEB) plans recorded on the government-wide statements related to GASB Statement Nos. 68 and 75, respectively. The School District's estimates as of June 30, 2020 were \$130.6 million and \$28.1 million for the pension and OPEB plans, respectively, based on data received from the Office of Retirement Services. We evaluated the key factors and assumptions used to develop the accounting estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

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

Disagreements with Management

For the purpose of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report.

We are pleased to report that no such disagreements arose during the course of our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. The attached schedule summarizes uncorrected misstatements of the financial statements that were requested to be recorded. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

Significant Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the School District, and business plans and strategies that may affect the risks of material misstatement, with management each year prior to our retention as the School District's auditors. However, these discussions occurred in the normal course of our professional relationship, and our responses were not a condition of our retention.

To the Board of Education
Saline Area Schools

October 19, 2020

As required by 2 CFR Part 200, we have also completed an audit of the federal programs administered by the School District. The results of that audit are provided to the Board of Education in our report on compliance with requirements applicable to each major program and on internal control over compliance in accordance with 2 CFR Part 200 dated October 19, 2020.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 19, 2020.

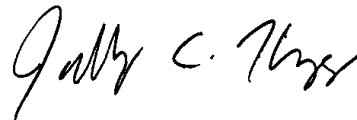
Management Consultations with Other Independent Accountants

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

This information is intended solely for the use of the Board of Education and management of the School District and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Plante & Moran, PLLC

A handwritten signature in black ink that reads "Jeffrey C. Higgins". The signature is written in a cursive style with a large initial "J".

Jeffrey C. Higgins, CPA
Partner

Summary of Unrecorded Possible Adjustments

Summary of Unrecorded Possible Adjustments

Client: Saline Area Schools
 Opinion Unit: Governmental Activities
 Y/E: June 30, 2020

SUMMARY OF UNRECORDED POSSIBLE ADJUSTMENTS

The pretax effect of misstatements and classification errors identified would be to increase (decrease) the reported amounts in the financial statement categories identified below:

| Ref. # | Description of Misstatement | Current Assets | Long-term Assets | Deferred Outflows of Resources | Current Liabilities | Long-term Liabilities | Deferred Inflows of Resources | Net Position | Revenue | Expenses | Change in Net Position Impact |
|--------------------------------|---|----------------|------------------|--------------------------------|---------------------|-----------------------|-------------------------------|--------------|---------|-------------|-------------------------------|
| FACTUAL MISSTATEMENTS: | | | | | | | | | | | |
| A1 | To adjust accounts payable for purchases incorrectly accrued for. | | | | \$ (95,316) | | | | | \$ (95,316) | \$ 95,316 |
| A2 | To record retainage payable | | \$ 126,597 | | 126,597 | | | | | | - |
| JUDGMENTAL ADJUSTMENTS: | | | | | | | | | | | |
| B1 | None | | | | | | | | | | - |
| PROJECTED ADJUSTMENTS: | | | | | | | | | | | |
| C1 | None | | | | | | | | | | - |
| | | \$ - | - | \$ - | - | \$ - | \$ - | \$ - | \$ - | - | - |
| Total | | \$ - | \$ 126,597 | \$ - | \$ 31,281 | \$ - | \$ - | \$ - | \$ - | \$ (95,316) | \$ 95,316 |

PASSED DISCLOSURES AND FINANCIAL STATEMENT PRESENTATION ISSUES:

D1 None

Client: Saline Area Schools
 Opinion Unit: Aggregate Remaining Funds
 Y/E: June 30, 2020

SUMMARY OF UNRECORDED POSSIBLE ADJUSTMENTS

The pretax effect of misstatements and classification errors identified would be to increase (decrease) the reported amounts in the financial statement categories identified below:

| Ref. # | Description of Misstatement | Current Assets | Long-term Assets | Deferred Outflows of Resources | Current Liabilities | Long-term Liabilities | Deferred Inflows of Resources | Equity | Revenue | Expenses | Change in Fund Balance Impact |
|--------------------------------|---|----------------|------------------|--------------------------------|---------------------|-----------------------|-------------------------------|--------|---------|-------------|-------------------------------|
| FACTUAL MISSTATEMENTS: | | | | | | | | | | | |
| A1 | To adjust accounts payable for purchases incorrectly accrued for. | | | | \$ (95,316) | | | | | \$ (95,316) | \$ 95,316 |
| JUDGMENTAL ADJUSTMENTS: | | | | | | | | | | | |
| B1 | None | | | | | | | | | | - |
| PROJECTED ADJUSTMENTS: | | | | | | | | | | | |
| C1 | None | | | | | | | | | | - |
| | | \$ - | \$ - | \$ - | - | \$ - | \$ - | \$ - | \$ - | - | - |
| Total | | \$ - | \$ - | \$ - | \$ (95,316) | \$ - | \$ - | \$ - | \$ - | \$ (95,316) | \$ 95,316 |

PASSED DISCLOSURES AND FINANCIAL STATEMENT PRESENTATION ISSUES:

D1 None

Client: Saline Area Schools
 Opinion Unit: 2016 B&S Fund
 Y/E: June 30, 2020

SUMMARY OF UNRECORDED POSSIBLE ADJUSTMENTS

The pretax effect of misstatements and classification errors identified would be to increase (decrease) the reported amounts in the financial statement categories identified below:

| Ref. # | Description of Misstatement | Current Assets | Long-term Assets | Deferred Outflows of Resources | Current Liabilities | Long-term Liabilities | Deferred Inflows of Resources | Equity | Revenue | Expenses | Change in Fund Balance Impact |
|--------------------------------|-----------------------------|----------------|------------------|--------------------------------|---------------------|-----------------------|-------------------------------|--------|---------|------------|-------------------------------|
| FACTUAL MISSTATEMENTS: | | | | | | | | | | | |
| A1 | To record retainage payable | | | | \$ 126,597 | | | | | \$ 126,597 | \$ (126,597) |
| JUDGMENTAL ADJUSTMENTS: | | | | | | | | | | | |
| B1 | None | | | | | | | | | | - |
| PROJECTED ADJUSTMENTS: | | | | | | | | | | | |
| C1 | None | | | | | | | | | | - |
| | | \$ - | \$ - | \$ - | - | \$ - | \$ - | \$ - | \$ - | - | - |
| Total | | \$ - | \$ - | \$ - | \$ 126,597 | \$ - | \$ - | \$ - | \$ - | \$ 126,597 | \$ (126,597) |

PASSED DISCLOSURES AND FINANCIAL STATEMENT PRESENTATION ISSUES:

D1 None

Informational Items

State Aid Funding

2019-2020 State Aid, Foundation Allowance, and Proration

Background

Beginning of the 2020 School Year: School funding for 2019-2020 started out with little clarity; as the year progressed, the funding picture only increased in complexity and uncertainty. Due to conflicting priorities between the governor and the Legislature, school aid funding was not set on July 1, 2019, the start of the School District's fiscal year. This meant Saline Area Schools was required to enact a budget with little to no guidance as to what the school aid funding picture would look like. It also meant the School District would need to revisit budget assumptions once the final state aid package was enacted. Once the funding was settled, the focus moved to what 2020-2021 would look like. The January 2020 Revenue Estimating Conference painted a positive picture for the School Aid Fund and the General Fund looking forward, and the governor started the budget process with the administration's budget recommendations.

State Budget Crisis: The normal budget development process was halted in March 2020 as the State began dealing with the implications of COVID-19. Schools moved to remote learning, meals were served for whole communities, federal financial resources were quickly infused into the economy, and "stay home, stay safe" was the theme as the entire state worked to see a way through the challenges of COVID-19. In May 2020, the regularly scheduled Revenue Estimating Conference addressed two key questions: What was the status of state revenue for the 2020 fiscal year, and what projections can be made looking forward to 2021 and 2022? The conclusions reached at the meeting were dire. It was estimated the 2020 School Aid Fund would end the year with an approximate \$1 billion deficit, roughly translated to a \$685 per pupil shortfall, that would need to be absorbed with the 2020 school year almost over. In addition, the estimates suggested there would be no improvement until 2022. These conclusions caused many districts to adjust their final 2020 budgets to reflect a potential proration.

Financial Picture Improves: In the months that followed the May Revenue Estimating Conference, and well after the 2020 school year had ended, the State concluded it could balance its school aid budget with a \$175 per pupil proration cut, significantly less than the expected \$650 to \$700 per pupil estimate. In addition, in August 2020, a special Revenue Estimating Conference was held with the same goals as the May conference. With better data, the conference concluded that it is possible the \$175 per pupil proration would not need to recur in 2021, and the School Aid Fund will end in a better position than anticipated. While those conclusions are hopeful, significant unknowns remain related to an economic rebound and how resources will be allocated to funding priorities within school aid. The data will be used to craft a school funding plan for 2021; once complete, districts will once again need to revisit their 2021 budgets to reflect the budget priorities and funding levels provided by the 2021 amendments to the School Aid Act.

2020 Funding Implications for Saline Area Schools

2019-2020 Foundation: The target foundation allowance (formerly known as the basic foundation allowance) increased by \$120, from \$8,409 to \$8,529. Additionally, using the “2X formula,” the minimum foundation allowance increased by \$240 per pupil to \$8,111. Before applying proration, Saline Area Schools’ received a \$238 increase in its foundation allowance, representing an increase of 3.0 percent. When a proration is applied, it does not change the actual foundation allowance. Instead it is essentially “taken off the top” of the funds provided to each district. The \$175 per pupil proration resulted in a reduction of funding of approximately \$911,000 from what was planned for Saline Area Schools. For practical purposes, after applying proration, which occurred subsequent to June 30, 2020, the net result was effectively an increase of \$63 per pupil funding.

MPSERS Cost Support: Overall retirement costs continue to increase. The estimated contribution rate for 2019-2020 ranged from 36.44 to 39.91 percent of covered payroll, with the rate, net of state funding support, paid directly by the employer ranging from 24.03 to 27.50 percent. The State’s funding support is provided in three separate sections of the State Aid Act: Sections 147a, 147c, and 147e. The School District received a total of \$468,136 in 147a1, \$721,648 in 147a2, \$4,323,524 in 147c1, and \$96,559 of 147e. In general terms, this means the total cost of the retirement system contributions in 2019-2020, representing approximately 39 percent of covered payroll, is recognized as an expenditure in the School District’s financial statements along with related revenue that was previously considered state support to the system. The net effect is that the School District is responsible for approximately a 27 percent contribution to the retirement system.

COVID-19 Waivers and Flexibilities: With the onset of COVID-19, many waivers were put in place and flexibilities made available to allow for the continued operation of schools. Examples include waivers for in-person attendance and days and hours requirements, since learning was now using a remote model, and approval and use of a Continuity of Learning Plan to qualify for continued state funding.

2021 Funding Implications for the School District

The August 2020 Revenue Estimating Conference reflected a better than expected revenue picture through September 30, 2020 and more stable financial footing for fiscal year 2021. Communications surrounding financial projections are highly cautionary, as the uncertainty of the economic impact of the pandemic duration continues to loom large. Careful monitoring of legislative, gubernatorial, and Michigan Department of Education actions will be essential for the School District to understand and plan for all revenue, identify requirements to receive and utilize federal revenue, and craft methodologies to allocate costs to ensure reimbursement. Several elements that impact school financial management are summarized below:

- **2020-2021 Foundation:** The School District’s foundation allowance remains at the fiscal 2019-2020 level, with the minimum set at \$8,111 per pupil and the target set at \$8,529 per pupil. For Saline Area Schools, this results in a foundation allowance of \$8,133 per pupil. The \$175 per pupil proration received in fiscal 2020 will not continue into fiscal 2021. School districts will also receive a one-time payment estimated at \$65 per pupil for fiscal year 2021 based on a 50/50 blend (50 percent weight on fiscal year 2020 membership plus 50 percent weight on what would have been the traditional fiscal year 2021 membership). Special education funding remains consistent at fiscal year 2020 levels, with the additional 2 percent reimbursement rate continuing in fiscal year 2021.

- **Pupil Membership Blend for 2020-2021:** Typically, the pupil count methodology is defined when the School Aid Act is amended. For the 2021 fiscal year, a modified weighting process was crafted in July 2020 under the “Return to Learn” plan agreed to by the Legislature and the governor. The methodology attempts to address the variety of education delivery methods under the extended COVID-19 learning plans used by districts as fall instruction begins. The process provides for seat time waivers, waives the days and hours of instruction minimums, and changes the weighting of the pupil counts. The new method is a 75 percent/25 percent “super blending.” Step one under this method requires a district to complete its calendar year spring and fall counts for 2019 and 2020. The weighting of those counts continues to be at 90 percent fall and 10 percent spring. Then each of those counts is blended, with the 2019 calendar year count blend weighted at 75 percent and the 2020 count blend weighted at 25 percent. The net result of this is that districts experiencing a student count decline will see slower revenue reductions. Districts with a growing student count would see a slower revenue rise.
- **Increasing Enrollment Districts:** The budget includes an additional \$66 million of funding that will be used to help mitigate impacts to growing districts negatively impacted by the “super blend” calculation. Payments to the impacted districts will be calculated using the difference between the new calculation and a non-pandemic-year blended count multiplied by current foundation allowance and capped at the target foundation level. Depending on the number of districts impacted by the “super blend,” the total funding allocation may be required to be prorated.
- **MPSERS Cost for 2020-2021:** The basic structure, including cost support provided by the School Aid Fund, will continue. For 2021, the overall contribution rate is expected to increase to 42 percent from 39 percent, with the net cost to the School District approximating 28 percent of covered payroll. While the net cost to the School District changes marginally, the overall contribution rate increases significantly from 2020. The School Aid Fund implication is that more resources are redirected from the funding of operations to the support of the retirement system funding requirement.

Looking Forward to 2022 and Beyond

Given the uncertain funding environment, looking past 2021 is difficult. The August 2020 Revenue Estimating Conference provided a look into 2022. While 2021 projected a surplus to carry over to 2022, the estimates suggest 2022 would be essentially breakeven, and the projections do not build in any specific foundation allowance increases. Factors that will impact projections include the following:

- The extent of economic “bounce back or backwards” that will be experienced by the State
- The impact of any future federal stimulus provided, as the projections do not include any stimulus other than what is already in place
- The ability to return to in-class instruction
- Student enrollment
- Health of the State’s General Fund
- Cost trends for the retirement system and extent state support is used from the School Aid Fund

The next Revenue Estimating Conference will occur in January 2021. Districts will need to carefully monitor those results and compare projections to the August 2020 conference results. That information will allow districts to better project the extent of recovery and implications for school funding.

New Federal Funding Considerations - 2020 and 2021

Districts are experiencing a significant flow of new federal grant funding, the likes of which have not been seen since the Great Recession. These federal grants have compliance strings attached and require additional time and attention by school districts to evaluate and ensure proper use.

The Families First Coronavirus Response Act and the Coronavirus Aid, Relief, and Economic Security Act appropriated billions of dollars in supplemental and new education grant programs. In addition, these acts, and numerous waivers issued by federal agencies, have provided flexibilities for states, intermediate school districts, and local education authorities responsible for administering and monitoring new and previously existing federal grant programs.

Specific guidance related to the funding awarded to the School District under these acts has been released sporadically, oftentimes after the award was announced or funding disbursed; in some cases, guidance is still developing. The following is a summary of the more significant federal grants that have already been awarded to Saline Area Schools or those to which the School District may consider applying:

- *Child Nutrition Meal Reimbursement: Unanticipated School Closures Program* - Due to the national emergency and mandatory closure of all Michigan K-12 schools, the School District participated in the Unanticipated School Closure Summer Food School Program (SFSP) during March, April, May, and June 2020. Nationwide and state-specific waivers granted by the U.S. Department of Agriculture (USDA) allowed all sponsors that participate in the National School Lunch Program (NSLP), School Breakfast Program (SBP), and SFSP to serve noncongregate meals to any child or teen age 18 years or younger residing in the community. The meals served through this program were provided free of charge, and reimbursement to the School District was funded through the CARES Act. Meal reimbursement claims by Saline Area Schools under the Unanticipated School Closures grant during the year ended June 30, 2020 totaled \$224,957.

On August 31, 2020, the USDA announced that it is extending a suite of nationwide waivers for the Summer Food Service Program and Seamless Summer Option (SSO) through the end of 2020 or until available funding is depleted. The extended waivers allow for congregate or noncongregate meals to be served in all areas at no cost and for parents or guardians to pick up meals for their children.

- *Coronavirus Relief Fund* - The CARES Act established the Coronavirus Relief Fund (CRF) and appropriated these funds to states and large governmental municipalities. The funds are designed to help districts cover the supplemental costs related to their response to COVID-19. In July and August 2020, the State of Michigan appropriated \$530 million of the State's federal CRF funds to local education agencies (LEAs), which has since been distributed via the state aid payment system. In addition, \$125 million of Michigan CRF funds is earmarked to provide support to eligible child care providers, including those operated by school districts.

Districts are required to use the funds in accordance with federal rules and regulations, subject to further interpretation by the State of Michigan. The CARES Act outlines three broad requirements that pertain to payments from the Coronavirus Relief Fund; the funds may be used only to cover expenses that:

1. Are necessary expenditures incurred due to the public health emergency with respect to coronavirus disease 2019 (COVID-19)
2. Were not accounted for in the budget most recently approved as of March 27, 2020 (the date of enactment of the CARES Act) for the state or government
3. Were incurred during the period from March 1, 2020 through December 30, 2020

In early September 2020, the U.S. Treasury issued clarified guidance specific to school districts' use of CRF funds. This guidance broadly states that CRF payments may be used to cover costs associated with providing distanced or in-person learning and that, "as an administrative convenience, Treasury will presume expenses of up to \$500 per elementary and secondary school student to be eligible expenditures, such that schools do not need to document the specific use of funds up to that amount." While the Treasury guidance provides flexibility relative to the eligibility of costs that can be applied to CRF funds, there remains some uncertainty surrounding the nature and extent of documentation that school districts will be required to produce and retain to support how the funds were used. Therefore, we encourage the School District to remain cognizant of any updates to requirements relating to CRF funds as they are made available.

Saline Area Schools' July and August 2020 state aid payments included a total of \$1,886,107 in CRF funds that must be recognized as revenue during fiscal year 2021 for eligible expenses incurred from March 1, 2020 through December 30, 2020.

- *Elementary and Secondary School Emergency Relief (ESSER) Fund* - The CARES Act also established a \$30.75 billion Education Stabilization Fund. Of the total \$389 million allocation to Michigan, the Michigan Department of Education (MDE) is required to apportion a minimum of 90 percent to LEAs based on the previous year's Title I formula. Although the State has no discretion in how this portion of the funding is to be allocated to eligible LEAs, school districts are still required to complete an application and budget by September 30, 2020 to be granted the award. ESSER grant funds can be applied toward a variety of allowable uses, including, but not limited to, coordination of efforts in response to coronavirus; provision of resources necessary to address the needs of individual schools, including learning materials and professional development; and other activities that are necessary to maintain the operation of and continuity of services in the school district and continue to employ existing staff.

A portion (9.5 percent) of the State ESSER Fund allocation is to be awarded competitively to school districts demonstrating the most need for remote learning connectivity and student mental health resources. Awards to individual school districts out of this reserve, known as ESSER Equity, are limited to 20 percent of the formula allocations. Applications are also due by September 30, 2020, and expenditures must have been incurred during the period from March 13, 2020 through September 30, 2021 to be eligible for reimbursement.

Saline Area Schools' formula ESSER allocation is \$76,777.

- *Governor's Education Emergency Relief (GEER) Fund* - GEER funds will be awarded to school districts that are determined to be most significantly impacted by COVID-19. A total of \$60 million will be distributed to school districts based on the number of students in high-need student groups, including those that are economically disadvantaged, special education students, and English language learners. To be eligible for funding, a school district's concentration of economically disadvantaged pupils compared to total enrollment must exceed 50 percent. Applications for GEER funds are expected to be available on or around September 14, 2020, and districts will have until the end of 2020 to apply. GEER funds must be used to support connectivity and out-of-school learning time; address learning loss and student mental health; provide for remote learning materials and professional development; and other health, safety, and wellness needs identified, required, or recommended in the MI Safe Schools Return to School Roadmap.

In addition to the CARES Act funding described above, the School District may also have received or may be eligible to apply for the following grants designed to assist with responding to impacts of the pandemic:

- Child Care and Development Block Grant - CARES Act Supplemental Payments
- Head Start - CARES Act Supplemental Payments
- Federal Emergency Management Agency (FEMA) Grants
- Coronavirus Food Assistance Program (CFAP) Commodities
- Federal assistance from the intermediate school district

In order to maximize available funding and ensure compliance with federal rules and regulations, the School District should do the following:

- Obtain a clear understanding of program requirements, including allowable uses and time period in which eligible expenses must be incurred.
- Verify that procedures and internal controls are adequately in place to adhere to Uniform Guidance rules related to procurement, cash management, allowable costs, and subrecipient monitoring, as applicable.
- Ensure that policies and procedures have been created or amended in accordance with requirements set forth in OMB Memorandums M-20-17 (rescinded by and replaced with M-20-26 on June 18, 2020) and M-20-26 (expired September 30, 2020), which provide agencies the ability to extend administrative relief to federal grant recipients.
- Document all decisions made to determine eligibility of emergency-funded costs.
- Refer regularly to accounting guidance issued by the Michigan Department of Education to ensure that federal grant revenue is recorded correctly and expenditures are tracked using the proper grant codes.

The COVID-19 pandemic has created a continuously changing environment for recipients of federal funding, including Saline Area Schools. As future legislation is developed, guidance is updated, and additional challenges and opportunities are uncovered, we are committed to assisting you in navigating the complexities.

Michigan Public School Employees' Retirement System (MPSERS) - Update on the Plans' Net Pension/OPEB Liabilities

Similar to the State of Michigan, the MPSERS plan has a September 30 year end. With the adoption of GASB Statement Nos. 68 and 75, districts have been reporting their share of the MPSERS plan funded status in the government-wide financial statements of the district.

At September 30, 2019, the pension portion of the MPSERS plan had a net pension liability of approximately \$33.8 billion. This is an increase from the reported amount of \$30.7 billion at September 30, 2018, an increase of approximately 10 percent. This increase meant that, for the year ended June 30, 2020, districts reported a higher net pension liability than they had in the previous year, despite the fact that districts continued to make their required contributions to the plan during fiscal year 2020. One of the primary reasons for the increase in the liability was the result of a recently completed five-year experience study. The study results had the impact of increasing computed liabilities and contribution requirements. Additionally, the discount rate was lowered by 0.25 basis points, which also had the impact of increasing the pension liability.

At September 30, 2019, the retiree health care portion (OPEB) of the MPSERS plan had a net OPEB liability of approximately \$7.3 billion. This is a decrease from the reported amount of \$8.1 billion at September 30, 2018, a decrease of approximately 10 percent. The discount rate was lowered by 0.20 basis points, which had the unfavorable impact of increasing the liability. However, this was largely offset by the results of a favorable experience study adjustment related to a decrease in the projected per person health benefits costs.

GASB Statement No. 84 - Fiduciary Activities

This statement was originally effective for the School District's June 30, 2020 financial statements; however, it was postponed one year with issuance of GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, in response to COVID-19 pandemic. GASB Statement No. 84 is now effective for the School District's June 30, 2021 financial statements. The statement establishes criteria for identifying fiduciary activities of all state and local governments. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. The statement was issued because it was determined by the GASB that there was divergence in practice between governments in what was being reported in a fiduciary fund. This statement was designed to provide a principles-based approach that governments could apply against their situations to determine if certain activity should be reported in a fiduciary fund. The statement also establishes and defines four types of fiduciary funds: pension trust funds, investment trust funds, private purpose trust funds, and custodial funds. The School District will be required to apply the new principles-based rules from this statement to determine if more or less reporting will be required related to fiduciary activities that may exist upon implementation of this standard, including the potential that certain activities could be reported as a new special revenue fund.

GASB Statement No. 87 - Leases

This statement was originally effective for the School District's June 30, 2021 financial statements; however, it was postponed 18 months with the issuance of GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, in response to the COVID-19 pandemic. With the deferral, GASB Statement No. 87 is now effective for the School District's June 30, 2022 financial statements. The statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows or outflows of resources based on payment provisions of the lease. The statement was issued to improve accounting and financial reporting for leases by governments. The statement establishes a single model for lease accounting for both lessees and lessors based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset on the lessee's government-wide financial statements, and a lessor is required to recognize a lease receivable and a deferred inflow of resources on the lessor's government-wide financial statements. Furthermore, there are additional financial statement disclosures required for the lessee and lessor as a result of the standard. The School District will have to identify and analyze all significant lease contracts to determine the lease asset and lease liability or deferred inflow or outflow of resources that will be required to be recognized upon implementation of the standard. This review should include all existing lease contracts and contracts that may have embedded lease arrangements that were not previously considered.