

Grass Lake
Community
Schools



Year Ended
June 30, 2020

Financial
Statements

Rehmann

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GRASS LAKE COMMUNITY SCHOOLS

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INDEPENDENT AUDITORS' REPORT

October 7, 2020

Board of Education
Grass Lake Community Schools
Grass Lake, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of *Grass Lake Community Schools* (the "District"), as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Independent Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant 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 Grass Lake Community Schools as of June 30, 2020, and the respective changes in financial position thereof and the budgetary comparison for the general fund for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 7, 2020, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Lehmann Johnson LLC".

MANAGEMENT'S DISCUSSION AND ANALYSIS

GRASS LAKE COMMUNITY SCHOOLS

Management's Discussion and Analysis

As management of Grass Lake Community Schools, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2020.

Financial Highlights

· Total net position	\$ (21,497,602)
· Change in total net position	(620,110)
· Fund balances, governmental funds	2,124,181
· Change in fund balances, governmental funds	314,266
· Unassigned fund balance, general fund	1,833,262
· Change in fund balance, general fund	312,719
· General obligation bonds outstanding	16,196,250
· Change in general obligation bonds	(2,204,375)
· Capital assets, net	22,468,605

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components:

1. Government-wide Financial Statements
2. Fund Financial Statements
3. Notes to the Financial Statements

This report also contains other required supplementary information in addition to the basic financial statements.

Government-wide Financial Statements

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

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

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

Both of the government-wide financial statements distinguish functions of the District that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the District include instruction, supporting services, community services, athletics, and food service. The District has no business-type activities as of and for the year ending June 30, 2020.

GRASS LAKE COMMUNITY SCHOOLS

Management's Discussion and Analysis

Fund Financial Statements

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

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

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

The District maintains three individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of fund revenues, expenditures, and changes in fund balances for the general fund and the debt service fund, which are the District's major funds. Data from the other nonmajor governmental special revenue fund is shown as well.

The District adopts an annual appropriated budget for its general and special revenue funds. The budgetary comparison statement has been provided herein to demonstrate compliance with the general fund budget.

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

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information. This is limited to this management's discussion and analysis and the schedules for the MPERS pension and other postemployment benefit plan immediately following the notes to the financial statements.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of the District's financial position. In the case of the District, liabilities and deferred inflows of resources exceeded assets and deferred outflows of resources by \$21,497,602 at the close of the most recent fiscal year.

GRASS LAKE COMMUNITY SCHOOLS

Management's Discussion and Analysis

	Net Position	
	2020	2019
Assets		
Current and other assets	\$ 3,564,753	\$ 3,331,148
Capital assets, net	22,468,605	23,444,180
Total assets	26,033,358	26,775,328
Deferred outflows of resources	9,327,291	9,516,293
Liabilities		
Long-term debt	22,797,271	24,522,746
Other liabilities	30,983,589	29,638,918
Total liabilities	53,780,860	54,161,664
Deferred inflows of resources	3,077,391	3,007,449
Net position		
Net investment in capital assets	7,691,295	7,018,624
Restricted	87,100	69,187
Unrestricted (deficit)	(29,275,997)	(27,965,303)
Total net position	\$ (21,497,602)	\$ (20,877,492)

The District implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* in fiscal year 2015 and GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, in fiscal year 2018. In addition to expanded disclosure requirements, the District is required to report its proportionate share of the MPSERS net pension liability and net other postemployment benefits liability on the statement of net position. This change has resulted in a negative total net position of governmental activities of \$21,497,602. Of this amount, \$(29,275,997) is unrestricted net position (deficit) and \$87,100 represents resources that are subject to external restrictions on how they may be used. The operating results of the general fund will have a significant impact on the change in unrestricted net position from year to year.

A portion of the District's net position, \$7,691,295, reflects its investment in capital assets (e.g. land, buildings and building improvements, vehicles, and furniture and equipment); less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to the students it serves; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The results of this year's operations for the District as a whole are reported in the statement of activities, which shows the change in net position for the fiscal year 2020.

Governmental Activities

Net position decreased \$620,110 in the current year compared to a decrease of \$394,657 in the prior year. The current year decrease is largely due to the increase in the net pension liability and related expenses. The District's childcare program was also affected by the COVID-19 shutdown in March 2020, resulting in a loss of revenue. These factors combined impacted the net position of the District.

GRASS LAKE COMMUNITY SCHOOLS

Management's Discussion and Analysis

	Change in Net Position	
	2020	2019
Revenues		
Program revenues:		
Charges for services	\$ 847,288	\$ 1,165,307
Operating grants and contributions	846,225	647,722
General revenues:		
Property taxes	3,343,595	3,216,465
Unrestricted state aid	10,835,250	10,412,581
Grants and contributions not restricted to specific programs	712,436	691,882
Unrestricted investment earnings	1,966	3,104
Total revenues	16,586,760	16,137,061
Expenses		
Instruction	10,087,746	9,389,881
Supporting services	4,089,531	4,037,336
Community services	127,449	127,964
Athletics	322,882	356,292
Food service	611,155	575,201
Interest on long-term debt	911,430	1,055,759
Unallocated depreciation	1,056,677	989,285
Total expenses	17,206,870	16,531,718
Change in net position	(620,110)	(394,657)
Net position		
Beginning of year	(20,877,492)	(20,482,835)
End of year	<u>\$ (21,497,602)</u>	<u>\$ (20,877,492)</u>

Financial Analysis of the Government's Funds

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

Governmental funds. The focus of the District's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the District's financing requirements. In particular, unassigned fund balance may serve as a useful measure of the District's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$2,124,181. Approximately 86% of this total amount, or \$1,833,262 constitutes unassigned fund balance, which is available for spending at the government's discretion. The remainder of fund balance is nonspendable, restricted, or assigned to indicate that it is not available for new spending because the underlying assets are included in inventory and are not available for current expenditure, or it is constrained by externally or internally imposed restrictions. At the end of the current fiscal year, \$10,166 is nonspendable for inventory, \$138,228 is restricted (externally) for debt service, \$70,637 is restricted (externally) for food service, and \$71,888 is assigned (internally) for technology.

The general fund is the chief operating fund of the District. At the end of the current fiscal year, the total fund balance was \$1,905,150, of which \$1,833,262 was unassigned, and \$71,888 was assigned for technology. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned and total fund balance represent 13.8% and 14.4% of total general fund expenditures, respectively.

GRASS LAKE COMMUNITY SCHOOLS

Management's Discussion and Analysis

The fund balance of the District's general fund increased \$312,719 during the current fiscal year, compared to an increase of \$105,951 in the prior fiscal year. This is primarily attributable to the 2019-2020 school year being cut short due to COVID-19. With the school year ending on March 13, 2020, the District did not have the operating expenses that are associated with running the District while students are in attendance. The District saw a decrease in utilities, fuel and supplies needed to keep the District operational for students, thus resulting in the opportunity for the District to take advantage of a savings, resulting in an increase to the fund balance.

The fund balance of the District's debt service fund decreased \$52,792 during the current fiscal year, compared to an increase of \$13,749 in the prior fiscal year. The amount of the State of Michigan School Loan Revolving Fund (SLRF) received for fiscal year 2020 was \$52,792 less than the revenues under expenditures.

General Fund Budgetary Highlights

Over the course of the year, the District revises its budget as it attempts to deal with changes in revenues 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 actually adopted at year end. A statement showing the District's original and final budget amounts compared with amounts actually incurred is provided with the governmental fund section in these financial statements.

The original budget is adopted by the school board before the start of the District's fiscal year and the final amended budget is adopted at the end of the fiscal year. The difference between the two relates to adjustments made in salaries, benefits, and general expenditures throughout the course of the year. Once the adjustments are known, the budget is adjusted accordingly.

Capital Assets and Debt Administration

Capital Assets. The District's investment in capital assets for its governmental activities as of June 30, 2020, amounted to \$22,468,605 (net of accumulated depreciation). This investment in capital assets includes land, buildings and building improvements, buses and other vehicles, and furniture and equipment.

	District's Capital Assets (net of depreciation)	
	2020	2019
Land	\$ 225,287	\$ 225,287
Construction in progress	-	387,776
Buildings and building improvements	20,744,973	21,385,585
Buses and other vehicles	209,618	245,489
Furniture and equipment	1,288,727	1,200,043
Total capital assets, net	\$ 22,468,605	\$ 23,444,180

Additional information regarding the District's capital assets can be found in the footnotes to the financial statements.

GRASS LAKE COMMUNITY SCHOOLS

Management's Discussion and Analysis

Long-term Debt

At the end of the fiscal years 2020 and 2019, the District had total long term debt outstanding, as follows:

	Long-term Debt	
	2020	2019
General obligation bonds	\$ 16,196,250	\$ 18,400,625
Notes from direct borrowings and direct placements:		
Installment purchase agreements	364,647	525,662
State of Michigan School Loan Funds	4,579,654	3,835,945
Unamortized bond premium	1,332,798	1,453,962
Compensated absences	323,922	306,552
Total	\$ 22,797,271	\$ 24,522,746

The District's total general obligation bonds and notes from direct borrowings and direct placements decreased by \$1,621,681 during the current year.

Additional information regarding the District's long-term debt can be found in footnotes to the financial statements.

Factors Bearing on the District's Future

The following factors were considered in preparing the District's budget for the 2020-2021 fiscal year:

- The foundation allowance is budgeted at \$7,300
- Student Enrollment is anticipated to remain relatively consistent with the enrollment of 2019-2020
- An anticipated increase in health benefits of 3%
- The budget for the year ended June 30, 2021 was adopted in June 2020 when there was a high degree of uncertainty related to the funding and operations for districts in the State of Michigan due to the novel coronavirus outbreak (COVID-19). Subsequent to year end, additional funding has been provided by the State of Michigan through various restricted federal grant programs. Despite this, there continues to be a high degree of uncertainty regarding potential changes to state and federal funding. In addition, the District is continuously evaluating the impacts of the pandemic as it determines the appropriate methods to deliver education to students in a safe environment. These factors will have a significant impact on the operational and financial performance of the District.

Requests for Information

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Superintendent, 899 South Union Street, Grass Lake, MI 49240.

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BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

GRASS LAKE COMMUNITY SCHOOLS

Statement of Net Position

June 30, 2020

	Governmental Activities
Assets	
Cash and cash equivalents	\$ 1,716,537
Receivables	1,838,050
Inventory	10,166
Capital assets not being depreciated	225,287
Capital assets being depreciated, net	<u>22,243,318</u>
Total assets	<u>26,033,358</u>
Deferred outflows of resources	
Deferred charge on refunding	696,385
Deferred pension amounts	7,000,915
Deferred other postemployment benefit amounts	<u>1,629,991</u>
Total deferred outflows of resources	<u>9,327,291</u>
Liabilities	
Accounts payable and accrued liabilities	1,529,379
Unearned revenue	43,124
Long-term debt:	
Due within one year	2,870,129
Due in more than one year	19,927,142
Net pension liability (due in more than one year)	24,197,042
Net other postemployment benefit liability (due in more than one year)	<u>5,214,044</u>
Total liabilities	<u>53,780,860</u>
Deferred inflows of resources	
Deferred pension amounts	979,631
Deferred other postemployment benefit amounts	<u>2,097,760</u>
Total deferred inflows of resources	<u>3,077,391</u>
Net position	
Net investment in capital assets	7,691,295
Restricted for:	
Food service	80,803
Debt service	6,297
Unrestricted (deficit)	<u>(29,275,997)</u>
Total net position	<u>\$ (21,497,602)</u>

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

GRASS LAKE COMMUNITY SCHOOLS

Statement of Activities

For the Year Ended June 30, 2020

Functions / Programs	Expenses	Program Revenues		Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	
Governmental activities				
Instruction	\$ 10,087,746	\$ 553,165	\$ 67,439	\$ (9,467,142)
Supporting services	4,089,531	-	314,659	(3,774,872)
Community services	127,449	9,274	-	(118,175)
Athletics	322,882	99,055	19,753	(204,074)
Food service	611,155	185,794	444,374	19,013
Interest on long-term debt	911,430	-	-	(911,430)
Unallocated depreciation	1,056,677	-	-	(1,056,677)
Total governmental activities	\$ 17,206,870	\$ 847,288	\$ 846,225	(15,513,357)
General revenues				
Property taxes				3,343,595
Unrestricted state aid				10,835,250
Grants and contributions not restricted to specific programs				712,436
Unrestricted investment earnings				1,966
Total general revenues				14,893,247
Change in net position				(620,110)
Net position, beginning of year				(20,877,492)
Net position, end of year				\$ (21,497,602)

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

FUND FINANCIAL STATEMENTS

GRASS LAKE COMMUNITY SCHOOLS

Balance Sheet

Governmental Funds

June 30, 2020

	General Fund	Debt Service Fund	Nonmajor Special Revenue School Lunch Fund	Totals
Assets				
Cash and cash equivalents	\$ 1,536,603	\$ 138,254	\$ 41,680	\$ 1,716,537
Due from other governments	1,834,567	-	3,483	1,838,050
Due from other funds	311	-	89,807	90,118
Inventory	-	-	10,166	10,166
Total assets	\$ 3,371,481	\$ 138,254	\$ 145,136	\$ 3,654,871
Liabilities				
Accounts payable	\$ 15,783	\$ 26	\$ 20,898	\$ 36,707
Salaries and benefits payable	1,360,741	-	-	1,360,741
Due to other funds	89,807	-	311	90,118
Unearned revenue	-	-	43,124	43,124
Total liabilities	1,466,331	26	64,333	1,530,690
Fund balances				
Nonspendable for inventory	-	-	10,166	10,166
Restricted for:				
Debt service	-	138,228	-	138,228
Food service	-	-	70,637	70,637
Assigned for technology	71,888	-	-	71,888
Unassigned	1,833,262	-	-	1,833,262
Total fund balances	1,905,150	138,228	80,803	2,124,181
Total liabilities and fund balances	\$ 3,371,481	\$ 138,254	\$ 145,136	\$ 3,654,871

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

GRASS LAKE COMMUNITY SCHOOLS

Reconciliation

Fund Balances of Governmental Funds
to Net Position of Governmental Activities
June 30, 2020

Fund balances - total governmental funds	\$ 2,124,181
Amounts reported for <i>governmental activities</i> in the statement of net position are because:	
Capital assets used in governmental activities are not financial resources and therefore not reported in the funds.	
Capital assets not being depreciated	225,287
Capital assets being depreciated, net	22,243,318
Certain liabilities, such as bonds payable, are not due and payable in the current period therefore are not reported in the funds.	
Bonds, loans, and installment purchase agreements	(21,140,551)
Unamortized bond premium	(1,332,798)
Unamortized charge on bond refunding	696,385
Accrued interest on bonds payable	(131,931)
Compensated absences	(323,922)
Certain pension and other postemployment benefit-related amounts, such as the net pension liability and net other postemployment benefit liability and deferred amounts, are not due and payable in the current period or do not represent current financial resources and therefore are not reported in the funds.	
Net pension liability	(24,197,042)
Deferred outflows related to the net pension liability	7,000,915
Deferred inflows related to the net pension liability	(979,631)
Net other postemployment benefit liability	(5,214,044)
Deferred outflows related to the net other postemployment benefit liability	1,629,991
Deferred inflows related to the net other postemployment benefit liability	(2,097,760)
Net position of governmental activities	<u>\$ (21,497,602)</u>

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

GRASS LAKE COMMUNITY SCHOOLS

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Funds

For the Year Ended June 30, 2020

	General Fund	Debt Service Fund	Nonmajor Special Revenue School Lunch Fund	Totals
Revenues				
Local sources:				
Property taxes	\$ 1,015,615	\$ 2,238,772	\$ -	\$ 3,254,387
Interest	1,966	89,208	-	91,174
Athletics	118,808	-	-	118,808
Preschool	553,165	-	-	553,165
Other local revenues	721,710	-	185,794	907,504
State sources	11,057,690	49,616	19,150	11,126,456
Federal sources	110,042	-	425,224	535,266
Total revenues	13,578,996	2,377,596	630,168	16,586,760
Expenditures				
Current:				
Instruction	8,861,846	-	-	8,861,846
Supporting services	3,795,913	-	-	3,795,913
Community services	111,321	-	-	111,321
Athletics	306,036	-	-	306,036
Food service	-	-	575,829	575,829
Debt service:				
Principal repayment	161,018	2,204,372	-	2,365,390
Interest and fiscal charges	15,927	842,836	-	858,763
Capital outlay	14,216	-	-	14,216
Total expenditures	13,266,277	3,047,208	575,829	16,889,314
Revenues over (under) expenditures	312,719	(669,612)	54,339	(302,554)
Other financing sources				
Issuance of long-term debt	-	616,820	-	616,820
Net change in fund balances	312,719	(52,792)	54,339	314,266
Fund balances, beginning of year	1,592,431	191,020	26,464	1,809,915
Fund balances, end of year	\$ 1,905,150	\$ 138,228	\$ 80,803	\$ 2,124,181

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

GRASS LAKE COMMUNITY SCHOOLS

Reconciliation

Net Change in Fund Balances of Governmental Funds
to Change in Net Position of Governmental Activities
For the Year Ended June 30, 2020

Net change in fund balances - total governmental funds	\$ 314,266
Amounts reported for <i>governmental activities</i> in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.	
Capital assets purchased/constructed	81,102
Depreciation expense	(1,056,677)
Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increases long-term liabilities in the statement of net position. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.	
Issuance of long-term debt	(616,820)
Principal payments on long-term liabilities	2,365,390
Change in accrued interest payable on School Loan Revolving Funds	(126,889)
Amortization of premium on bond refunding	121,164
Amortization of charge on bond refunding	(63,308)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.	
Change in accrued interest payable on bonds	16,366
Change in the accrual for compensated absences	(17,370)
Change in the net pension liability and related deferred amounts	(2,018,028)
Change in the net other postemployment benefit liability and related deferred amounts	380,694
Change in net position of governmental activities	<u>\$ (620,110)</u>

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

GRASS LAKE COMMUNITY SCHOOLS

Statement of Revenues, Expenditures and Changes in Fund Balance

Budget and Actual - General Fund
For the Year Ended June 30, 2020

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Revenues				
Local sources:				
Property taxes	\$ 996,050	\$ 1,015,615	\$ 1,015,615	\$ -
Interest	2,500	1,966	1,966	-
Athletics	74,750	118,808	118,808	-
Preschool	725,000	553,165	553,165	-
Other local revenues	514,000	721,710	721,710	-
State sources	10,813,790	11,285,666	11,057,690	(227,976)
Federal sources	92,500	110,042	110,042	-
Total revenues	13,218,590	13,806,972	13,578,996	(227,976)
Expenditures				
Current:				
Instruction:				
Basic programs:				
Elementary	3,503,310	3,392,901	3,473,230	80,329
Middle school	1,365,023	1,471,295	1,553,877	82,582
High school	2,068,632	2,165,706	2,204,002	38,296
Pre-Kindergarten	656,568	564,857	564,853	(4)
Added needs:				
Special education	809,503	811,086	837,552	26,466
At Risk	202,327	247,758	228,332	(19,426)
Total instruction	8,605,363	8,653,603	8,861,846	208,243
Supporting services:				
Pupil services	256,006	252,820	256,824	4,004
Instructional staff	59,975	69,630	69,661	31
Technology and media	280,327	256,799	256,799	-
General administration:				
Board of education	68,250	42,141	42,141	-
Executive administration	349,162	359,206	359,206	-
School administration	945,571	951,900	953,299	1,399
Business services	200,467	236,426	236,426	-
Operations and maintenance	1,220,466	1,204,816	1,204,816	-
Pupil transportation	470,973	417,781	416,616	(1,165)
Staff/personnel services	-	125	125	-
Total supporting services	3,851,197	3,791,644	3,795,913	4,269

continued...

GRASS LAKE COMMUNITY SCHOOLS

Statement of Revenues, Expenditures and Changes in Fund Balance Budget and Actual - General Fund For the Year Ended June 30, 2020

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Expenditures (continued)				
Current (continued):				
Community services	\$ -	\$ 111,321	\$ 111,321	\$ -
Athletics	306,778	306,036	306,036	-
Debt service:				
Principal repayment	-	161,018	161,018	-
Interest and fiscal charges	90,000	15,927	15,927	-
Total debt service	90,000	176,945	176,945	-
Capital outlay	130,000	111,158	14,216	(96,942)
Total expenditures	12,983,338	13,150,707	13,266,277	115,570
Revenues over expenditures	235,252	656,265	312,719	(343,546)
Other financing uses				
Transfers out	50,000	-	-	-
Net change in fund balance	185,252	656,265	312,719	(343,546)
Fund balance, beginning of year	1,592,431	1,592,431	1,592,431	-
Fund balance, end of year	\$ 1,777,683	\$ 2,248,696	\$ 1,905,150	\$ (343,546)

concluded.

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

GRASS LAKE COMMUNITY SCHOOLS

Statement of Fiduciary Assets and Liabilities

June 30, 2020

	Agency Fund
Assets	
Cash and cash equivalents	<u>\$ 258,552</u>
Liabilities	
Due to student groups and activities	<u>\$ 258,552</u>

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

NOTES TO FINANCIAL STATEMENTS

GRASS LAKE COMMUNITY SCHOOLS

Notes to Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

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

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The District had no business-type activities during the year.

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

Separate financial statements are provided for governmental funds and 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.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting* as are the fiduciary fund financial statements, except for agency funds, which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period or within one year for expenditure-driven grants. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences are recorded only when payment is due.

GRASS LAKE COMMUNITY SCHOOLS

Notes to Financial Statements

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

The District reports the following major governmental funds:

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

The *debt service fund* is used to account for all financial resources restricted, committed or assigned to expenditure for principal and interest.

The District reports the following fund types:

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

The *agency fund* accounts for assets held for other groups and organizations and is custodial in nature.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

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

Deposits and Investments

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

Receivables and Payables

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

Inventory

Inventory is valued at the lower of cost (first in, first out) or market. Inventory in the food service fund consists of expendable supplies held for consumption. The cost is recorded as an expenditure when consumed rather than when purchased. Reported inventories are equally offset by a fund balance reserve which indicates that they do not constitute "available spendable resources" even though they are a component of net current position.

GRASS LAKE COMMUNITY SCHOOLS

Notes to Financial Statements

Capital Assets

Capital assets, which include property and equipment, are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated acquisition cost at the date of donation.

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

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

Asset	Years
Buildings and building improvements	50
Buses and other vehicles	5-8
Furniture and equipment	5-20

Deferred Outflows of Resources

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

Salaries Payable and Accrued Employee Benefits

A liability is recorded at June 30, 2020 for those amounts owed to teachers and other employees of the District who do not work during the summer when school is not in session but have elected to have their salaries paid over an entire year. This has the effect of properly charging their salaries to expenditures in the fiscal year in which their services are received, even though they are not paid until July and August of the following fiscal year. The liability for accrued retirement and the employer share of FICA related to the salaries payable has been recorded as has the liability for employee health insurances for the months of July and August. The District pays these insurances for this period as a part of the compensation for services rendered in the preceding school year.

Compensated Absences

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

GRASS LAKE COMMUNITY SCHOOLS

Notes to Financial Statements

Long-term Obligations

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

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

Deferred Inflows of Resources

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

Fund Equity

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

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

Pensions and Other Postemployment Benefits

For purposes of measuring the net pension and other postemployment benefit liabilities, deferred outflows of resources and deferred inflows of resources related to pension and other postemployment benefits, and pension and other postemployment benefits expense, information about the fiduciary net position of the Plan and additions to/deductions from the plan fiduciary net position have been determined on the same basis as they are reported by the plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

GRASS LAKE COMMUNITY SCHOOLS

Notes to Financial Statements

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

2. BUDGETARY INFORMATION

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general and special revenue funds. All annual appropriations lapse at fiscal year end.

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

3. EXCESS OF EXPENDITURES OVER BUDGET

During the year ended June 30, 2020, the District incurred certain expenditures in excess of the amounts appropriated as follows:

	Final Budget	Actual	Over Budget
General fund			
Current-			
Instruction:			
Basic programs:			
Elementary	\$ 3,392,901	\$ 3,473,230	\$ 80,329
Middle school	1,471,295	1,553,877	82,582
High school	2,165,706	2,204,002	38,296
Added needs -			
Special education	811,086	837,552	26,466
Supporting services :			
Pupil services	252,820	256,824	4,004
Instructional staff	69,630	69,661	31
General administration -			
School administration	951,900	953,299	1,399

4. DEPOSITS

A reconciliation of cash and cash equivalents as shown on the Statement of Net Position and Statement of Fiduciary Assets and Liabilities follows:

Statement of Net Position	
Cash and cash equivalents	\$ 1,716,537
Statement of Fiduciary Assets and Liabilities	
Cash and cash equivalents	<u>258,552</u>
Total	<u>\$ 1,975,089</u>

GRASS LAKE COMMUNITY SCHOOLS

Notes to Financial Statements

Deposits	
Bank deposits (checking/savings accounts)	\$ 1,974,899
Cash on hand	<u>190</u>
Total	<u>\$ 1,975,089</u>

Statutory Authority

State statutes authorize the District to invest in:

- . Bonds, bills, or notes of the United States; obligations, the principal and interest of which are fully guaranteed by the United States; or obligations of the State. In a primary or fourth class school district, the bonds, bills, or notes shall be payable at the option of the holder upon not more than 90 days notice or, if not so payable, shall have maturity dates not more than 5 years after the purchase dates.
- . Certificates of deposit insured by a State or national bank, savings accounts of a state or federal savings and loan association, or certificates of deposit or share certificates of a state or federal credit union organized and authorized to operate in this State.
- . Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.
- . Securities issued or guaranteed by agencies or instrumentalities of the United States government or federal agency obligation repurchase agreements, and bankers' acceptance issued by a bank that is a member of the federal deposit insurance corporation.
- . Mutual funds composed entirely of investment vehicles that are legal for direct investment by a school district.
- . Investment pools, as authorized by the surplus funds investment pool act, composed entirely of instruments that are legal for direct investment by a school district.

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

Deposit and Investment Risk

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified in the listing of authorized investments above. The District's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The District has no investments at June 30, 2020.

Credit Risk. State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in the list of authorized investments above. The District's investment policy does not have specific limits in excess of state law on investment credit risk. The District has no investments at June 30, 2020.

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned. State law does not require and the District does not have a policy for deposit custodial credit risk. As of year end, \$1,733,341 of the District's bank balance of \$1,983,341 was exposed to custodial credit risk because it was uninsured and uncollateralized.

GRASS LAKE COMMUNITY SCHOOLS

Notes to Financial Statements

Concentration of Credit Risk. State law limits allowable investments but does not limit concentration of credit risk as identified in the list of authorized investments above. The District's investment policy does not have specific limits in excess of state law on concentration of credit risk. The District has no investments at June 30, 2020.

5. RECEIVABLES

Receivables as of year-end for the District's individual major funds and nonmajor funds in the aggregate, are as follows:

	General Fund	Nonmajor Special Revenue School Lunch Fund	Total
Due from other governments	\$ 1,834,567	\$ 3,483	\$ 1,838,050

6. CAPITAL ASSETS

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

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Capital assets not being depreciated -					
Land	\$ 225,287	\$ -	\$ -	\$ -	\$ 225,287
Construction in progress	387,776	-	-	(387,776)	-
	<u>613,063</u>	<u>-</u>	<u>-</u>	<u>(387,776)</u>	<u>225,287</u>
Capital assets being depreciated:					
Buildings and building improvements	32,333,408	-	-	-	32,333,408
Buses and other vehicles	1,250,377	21,000	(138,565)	-	1,132,812
Furniture and equipment	5,884,133	60,102	-	387,776	6,332,011
	<u>39,467,918</u>	<u>81,102</u>	<u>(138,565)</u>	<u>387,776</u>	<u>39,798,231</u>
Less accumulated depreciation:					
Buildings and building improvements	(10,947,823)	(640,612)	-	-	(11,588,435)
Buses and other vehicles	(1,004,888)	(56,871)	138,565	-	(923,194)
Furniture and equipment	(4,684,090)	(359,194)	-	-	(5,043,284)
	<u>(16,636,801)</u>	<u>(1,056,677)</u>	<u>138,565</u>	<u>-</u>	<u>(17,554,913)</u>
Total capital assets being depreciated, net	<u>22,831,117</u>	<u>(975,575)</u>	<u>-</u>	<u>387,776</u>	<u>22,243,318</u>
Capital assets, net	\$ <u>23,444,180</u>	\$ <u>(975,575)</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>22,468,605</u>

Depreciation expense of \$1,056,677 was reported as "unallocated depreciation", and was not allocated to specific functions.

GRASS LAKE COMMUNITY SCHOOLS

Notes to Financial Statements

7. PAYABLES

Accounts payable and accrued liabilities as of year end are as follows:

Fund Financial Statements	
Accounts payable	\$ 36,707
Salaries and benefits payable	<u>1,360,741</u>
	1,397,448
Government-wide Financial Statements	
Accrued interest on long-term debt	<u>131,931</u>
	<u><u>\$ 1,529,379</u></u>

8. INTERFUND RECEIVABLES AND PAYABLES

The composition of interfund balances as of June 30, 2020, was as follows:

	Due from Other Funds	Due to Other Funds
General fund	\$ 311	\$ 89,807
Nonmajor governmental funds	<u>89,807</u>	<u>311</u>
	<u><u>\$ 90,118</u></u>	<u><u>\$ 90,118</u></u>

The District often reports interfund balances between many of its funds. These interfund balances result primarily from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

GRASS LAKE COMMUNITY SCHOOLS

Notes to Financial Statements

9. LONG-TERM DEBT

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

	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Governmental Activities					
General obligation bonds:					
2010 Refunding Bonds	\$ 765,625	\$ -	\$ (109,375)	\$ 656,250	\$ 109,375
2015A Refunding Bonds	14,440,000	-	(1,320,000)	13,120,000	1,420,000
2015B Refunding Bonds	3,195,000	-	(775,000)	2,420,000	760,000
Total general obligation bonds	<u>18,400,625</u>	<u>-</u>	<u>(2,204,375)</u>	<u>16,196,250</u>	<u>2,289,375</u>
Direct borrowings/placements:					
Installment purchase agreements:					
2015 school buses	60,642	-	(29,902)	30,740	30,740
2017 school bus	30,348	-	(30,348)	-	-
2018 school buses	85,199	-	(27,593)	57,606	28,394
SmartBoot security system	349,473	-	(73,172)	276,301	76,534
Total installment purchase agreements	<u>525,662</u>	<u>-</u>	<u>(161,015)</u>	<u>364,647</u>	<u>135,668</u>
School Loan Funds:					
School Bond Loan	857	28	-	885	-
School Revolving Loan	3,835,088	743,681	-	4,578,769	-
Total School Loan Funds	<u>3,835,945</u>	<u>743,709</u>	<u>-</u>	<u>4,579,654</u>	<u>-</u>
Total direct borrowings/placements	<u>4,361,607</u>	<u>743,709</u>	<u>(161,015)</u>	<u>4,944,301</u>	<u>135,668</u>
Total bonds and direct borrowings/placements	22,762,232	743,709	(2,365,390)	21,140,551	2,425,043
Unamortized bond premium	1,453,962	-	(121,164)	1,332,798	121,164
Compensated absences	306,552	315,749	(298,379)	323,922	323,922
Total	<u>\$ 24,522,746</u>	<u>\$ 1,059,458</u>	<u>\$ (2,784,933)</u>	<u>\$ 22,797,271</u>	<u>\$ 2,870,129</u>

Compensated absences are generally liquidated by the general fund.

GRASS LAKE COMMUNITY SCHOOLS

Notes to Financial Statements

General Obligation Bonds

Bonds payable consist of the following issues:

\$1,750,000, 2010 Refunding Bonds payable in annual installments of \$109,375 through May 1, 2026, interest at 6.25%	\$ 656,250
\$19,130,000, 2015 Refunding Bonds, Series A, payable in annual installments of \$740,000 to \$1,560,000 through May 1, 2031, interest at 3.0% to 5.0%	13,120,000
\$6,155,000, 2015 Refunding Bonds (taxable), Series B, issued to refund School Loan Funds, payable in annual installments of \$725,000 to \$860,000 through May 1, 2023, interest at 0.75% to 3.30%	<u>2,420,000</u>
	<u><u>\$ 16,196,250</u></u>

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

Year Ended June 30,	Principal	Interest	Total
2021	\$ 2,289,375	\$ 775,653	\$ 3,065,028
2022	2,384,375	682,993	3,067,368
2023	2,484,375	584,043	3,068,418
2024	1,649,375	506,425	2,155,800
2025	1,644,375	452,525	2,096,900
2026-2030	4,864,375	976,375	5,840,750
2031	880,000	44,000	924,000
	<u>\$ 16,196,250</u>	<u>\$ 4,022,014</u>	<u>\$ 20,218,264</u>

Installment Purchase Agreements

During 2016, the District entered into a purchase agreement to purchase two buses for \$148,238. Payments are due on July 15 each year through July 15, 2020. During 2018, the District entered into an installment purchase agreement to purchase one bus for \$90,633. Payments are due on August 15, 2017, August 15, 2018, and August 1, 2019. During 2019, the District entered into an installment purchase agreement to purchase two buses for \$85,199. Payments are due on July 10, 2019, 2020, and 2021. Additionally, during 2019, the District entered into an installment purchase agreement to purchase the SmartBook Security System for \$387,766. Payments are due the 24th of each month, beginning December 24, 2018 through November 24, 2023.

GRASS LAKE COMMUNITY SCHOOLS

Notes to Financial Statements

Annual debt service requirements to maturity for notes from direct borrowings and direct placements are as follows:

Year Ended June 30,	Principal	Interest	Total
2021	\$ 135,668	\$ 13,398	\$ 149,066
2022	109,262	8,204	117,466
2023	83,727	3,674	87,401
2024	35,990	406	36,396
	<u>\$ 364,647</u>	<u>\$ 25,682</u>	<u>\$ 390,329</u>

State of Michigan School Loan Funds

The State of Michigan School Loan Funds represent amounts borrowed from the State of Michigan School Bond loan program to supplement property tax revenue for making payments on the District's general obligation bonds. Although interest accrues each year, no payment is due until such time as the District's property tax revenue is sufficient to support the debt service requirements on the general obligation bonds. Changes to the School Loan Funds for the year ended June 30, 2020, are as follows:

	Principal	Interest	Total
Beginning balance	\$ 3,623,646	\$ 212,299	\$ 3,835,945
Additions	616,820	126,889	743,709
Ending balance	<u>\$ 4,240,466</u>	<u>\$ 339,188</u>	<u>\$ 4,579,654</u>

10. NET INVESTMENT IN CAPITAL ASSETS

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

Net investment in capital assets	
Capital assets not being depreciated	\$ 225,287
Capital asset being depreciated, net	22,243,318
Capital related general obligation bonds	(13,776,250)
Notes from direct borrowings and direct placements -	
Installment purchase agreements	(364,647)
Unamortized premium on bond refunding	(1,332,798)
Unamortized deferred charge on bond refunding	696,385
Net investment in capital assets	<u>\$ 7,691,295</u>

11. RISK MANAGEMENT

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

GRASS LAKE COMMUNITY SCHOOLS

Notes to Financial Statements

12. PROPERTY TAXES

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

13. TAX ABATEMENTS

The District received reduced property tax revenues during 2020 as a result of industrial facilities tax exemptions (IFT's) entered into by cities, villages, townships, and authorities within the District boundaries.

The IFT's were entered into based upon the Plant Rehabilitation and Industrial Development Districts Act, (known as the Industrial Facilities Exemption), PA 198 of 1974, as amended. IFT's provide a tax incentive to manufacturers to enable renovation and expansion of aging facilities, assist in the building of new facilities, and to promote the establishment of high tech facilities. Properties qualifying for IFT status are taxed at 50% of the millage rate applicable to other real and personal property within the District boundaries. The abatements amounted to approximately \$13,700 in reduced District tax revenues for 2020.

14. PENSION AND OTHER POSTEMPLOYMENT BENEFITS PLANS

Plan Description

The Michigan Public School Employees' Retirement System (the "System" or MPERS) is a cost-sharing, multiple employer, state-wide, defined benefit public employee retirement plan governed by the State of Michigan (the "State") originally created under Public Act 136 of 1945, recodified and currently operating under the provisions of Public Act 300 of 1980, as amended. Section 25 of this act establishes the board's authority to promulgate or amend the provisions of the System. The board consists of twelve members - eleven appointed by the Governor and the State Superintendent of Instruction, who serves as an ex-officio member.

The System's pension plan was established by the State to provide retirement, survivor and disability benefits to public school employees. In addition, the System's health plan provides all retirees with the option of receiving health, prescription drug, dental and vision coverage under the Michigan Public School Employees' Retirement Act (1980 PA 300 as amended).

The System is administered by the Office of Retirement Services (ORS) within the Michigan Department of Technology, Management & Budget. The Department Director appoints the Office Director, with whom the general oversight of the System resides. The State Treasurer serves as the investment officer and custodian for the System.

The System's financial statements are available at the ORS website at www.michigan.gov/orsschools.

Pension Benefits Provided

Benefit provisions of the defined benefit pension plan are established by State statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions for the defined benefit (DB) pension plan. Depending on the plan option selected, member retirement benefits are determined by final average compensation, years of service, and a pension factor ranging from 1.25% to 1.50%. DB members are eligible to receive a monthly benefit when they meet certain age and service requirements. The System also provides disability and survivor benefits to DB plan members.

GRASS LAKE COMMUNITY SCHOOLS

Notes to Financial Statements

A DB member plan member who leaves Michigan public school employment may request a refund of his or her member contributions to the retirement system account if applicable. A refund cancels a former member's rights to future benefits. However, returning members who previously received a refund of their contributions may reinstate their service through repayment of the refund upon satisfaction of certain requirements.

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

Other Postemployment Benefits Provided

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

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

GRASS LAKE COMMUNITY SCHOOLS

Notes to Financial Statements

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

Contributions

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

Employer contributions to the System are determined on an actuarial basis using the entry age normal actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the service of the individual between entry age and assumed exit age. The portion of this cost allocated to the current valuation year is called the normal cost. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis. The unfunded (overfunded) actuarial accrued liability as of the September 30, 2018 valuation will be amortized over a 20-year period beginning October 1, 2018 and ending September 30, 2038.

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

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

For the year ended June 30, 2020, required and actual contributions from the District to the pension plan were \$1,988,227, which included \$797,570, the amount received from the State and remitted to the System to fund the MPSERS unfunded actuarial accrued liability ("UAAL") stabilization rate.

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

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

For the year ended June 30, 2020, required and actual contributions from the District to the OPEB plan were \$510,943.

GRASS LAKE COMMUNITY SCHOOLS

Notes to Financial Statements

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

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

For the year ended June 30, 2020, required and actual contributions from the District for those members with a defined contribution benefit were \$48,309.

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

At June 30, 2020, the District reported a liability of \$24,197,042 for its proportionate share of the MPSERS net pension liability. The net pension liability was measured as of September 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 2018. The District's proportion of the net pension liability was determined by dividing each employer's statutorily required pension contributions to the system during the measurement period by the percent of pension contributions required from all applicable employers during the measurement period. At September 30, 2019, the District's proportion was 0.07307%, which was a decrease of 0.00045% from its proportion measured as of September 30, 2018.

For the year ended June 30, 2020, the District recognized pension expense of \$4,003,348. At June 30, 2020, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources	Net Deferred Outflows (Inflows) of Resources
Differences between expected and actual experience	\$ 108,459	\$ 100,899	\$ 7,560
Changes in assumptions	4,737,798	-	4,737,798
Net difference between projected and actual earnings on pension plan investments	-	775,474	(775,474)
Changes in proportion and differences between employer contributions and proportionate share of contributions	330,402	103,258	227,144
	<u>5,176,659</u>	<u>979,631</u>	<u>4,197,028</u>
District contributions subsequent to the measurement date	1,824,256	-	1,824,256
Total	<u>\$ 7,000,915</u>	<u>\$ 979,631</u>	<u>\$ 6,021,284</u>

GRASS LAKE COMMUNITY SCHOOLS

Notes to Financial Statements

The \$1,824,256 reported as deferred outflows of resources related to pensions resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30,	Amount
2021	\$ 1,756,398
2022	1,321,563
2023	805,961
2024	<u>313,106</u>
Total	<u>\$ 4,197,028</u>

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

At June 30, 2020, the District reported a liability of \$5,214,044 for its proportionate share of the MPSERS net OPEB liability. The net OPEB liability was measured as of September 30, 2019, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation rolled forward from September 2018. The District's proportion of the net OPEB liability was determined by dividing each employer's statutorily required OPEB contributions to the system during the measurement period by the percent of OPEB contributions required from all applicable employers during the measurement period. At September 30, 2019, the District's proportion was 0.07264% which was a decrease of 0.00120% from its proportion measured as of September 30, 2018.

For the year ended June 30, 2020, the District recognized OPEB expense of \$130,723. At June 30, 2020, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources	Net Deferred Outflows (Inflows) of Resources
Differences between expected and actual experience	\$ -	\$ 1,913,180	\$ (1,913,180)
Changes in assumptions	1,129,778	-	1,129,778
Net difference between projected and actual earnings on OPEB plan investments	-	90,675	(90,675)
Changes in proportion and differences between employer contributions and proportionate share of contributions	<u>62,313</u>	<u>93,905</u>	<u>(31,592)</u>
	1,192,091	2,097,760	(905,669)
District contributions subsequent to the measurement date	<u>437,900</u>	-	<u>437,900</u>
Total	<u>\$ 1,629,991</u>	<u>\$ 2,097,760</u>	<u>\$ (467,769)</u>

GRASS LAKE COMMUNITY SCHOOLS

Notes to Financial Statements

The \$437,900 reported as deferred outflows of resources related to OPEB resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ended June 30,	Amount
2021	\$ (245,379)
2022	(245,379)
2023	(200,132)
2024	(136,688)
2025	<u>(78,091)</u>
Total	<u>\$ (905,669)</u>

Actuarial Assumptions

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

Actuarial cost method	Entry age, normal
Wage inflation rate	2.75%
Investment rate of return:	
MIP and Basic plans (non-hybrid)	6.80%
Pension Plus plan (hybrid)	6.80%
Pension Plus 2 plan (hybrid)	6.00%
OPEB plans	6.95%
Projected salary increases	2.75% - 11.55%, including wage inflation at 2.75%
Cost of living adjustments	3% annual non-compounded for MIP members
Healthcare cost trend rate	7.5% Year 1 graded to 3.5% Year 12
Mortality	RP-2014 Male and Female Employee Annuitant Mortality Tables, adjusted for mortality improvements using projection scale MP-2017 from 2006. For retirees, the tables were scaled by 82% for males and 78% for females. For active members, 100% of the table rates were used for both males and females
Other OPEB assumptions:	
Opt-out assumptions	21% of eligible participants hired before July 1, 2008 and 30% of those hired after June 30, 2008 are assumed to opt-out of the retiree health plan
Survivor coverage	80% of male retirees and 67% of female retirees are assumed to have coverages continuing after the retiree's death
Coverage election at retirement	75% of male and 60% of female future retirees are assumed to elect coverage for 1 or more dependents

GRASS LAKE COMMUNITY SCHOOLS

Notes to Financial Statements

Assumption changes as a result of an experience study for the period 2012 through 2017 have been adopted by the System for use in the annual pension and OPEB valuations beginning with the September 30, 2017 valuation. The total pension and OPEB liabilities as of September 30, 2019, are based on the results of an actuarial valuation date of September 30, 2018, and rolled forward using generally accepted actuarial procedures, including the experience study. The recognition period for pension liabilities is 4.4977 years which is the average of the expected remaining service lives of all employees. The recognition period for OPEB liabilities is 5.7101 years which is the average of the expected remaining service lives of all employees. The recognition period for assets is 5 years.

Long-term Expected Return on Pension Plan Assets

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of September 30, 2019, are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return	Expected Money-Weighted Rate of Return
Domestic equity pools	28.00%	5.50%	1.54%
Private equity pools	18.00%	8.60%	1.55%
International equity pools	16.00%	7.30%	1.17%
Fixed income pools	10.50%	1.20%	0.13%
Real estate and infrastructure pools	10.00%	4.20%	0.42%
Absolute return pools	15.50%	5.40%	0.84%
Short-term investment pools	2.00%	0.08%	0.00%
	100.00%		5.65%
Inflation			2.30%
Risk adjustment			-1.15%
Investment rate of return			6.80%

GRASS LAKE COMMUNITY SCHOOLS

Notes to Financial Statements

Long-term Expected Return on OPEB Plan Assets

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the OPEB plan's target asset allocation as of September 30, 2019, are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return	Expected Money-Weighted Rate of Return
Domestic equity pools	28.00%	5.50%	1.54%
Private equity pools	18.00%	8.60%	1.55%
International equity pools	16.00%	7.30%	1.17%
Fixed income pools	10.50%	1.20%	0.13%
Real estate and infrastructure pools	10.00%	4.20%	0.42%
Absolute return pools	15.50%	5.40%	0.84%
Short-term investment pools	2.00%	0.08%	0.00%
	100.00%		5.65%
Inflation			2.30%
Risk adjustment			-1.00%
Investment rate of return			6.95%

Rate of Return

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

Discount Rate

A discount rate of 6.80% was used to measure the total pension liability (6.80% for the Pension Plus plan, 6.00% for the Pension Plus 2 plan, both of which are hybrid plans provided through non-university employers only) and a discount rate of 6.95% was used to measure the total OPEB liability. This discount rate was based on the long-term expected rate of return on pension and OPEB plan investments of 6.80% (6.80% for the Pension Plus plan, 6.00% for the Pension Plus 2 plan) and 6.95%, respectively. The projection of cash flows used to determine these discount rates assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension and OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension and OPEB plan investments was applied to all periods of projected benefit payments to determine the total pension and OPEB liabilities.

GRASS LAKE COMMUNITY SCHOOLS

Notes to Financial Statements

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

The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 6.80% (6.80% for the Pension Plus plan, 6.00% for the Pension Plus 2 plan), as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher:

	1% Decrease (5.80% / 5.80% / 5.00%)	Current Discount Rate (6.80% / 6.80% / 6.00%)	1% Increase (7.80% / 7.80% / 7.00%)
District's proportionate share of the net pension liability	\$ 31,457,703	\$ 24,197,042	\$ 18,177,704

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

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

	1% Decrease (5.95%)	Current Discount Rate (6.95%)	1% Increase (7.95%)
District's proportionate share of the net OPEB liability	\$ 6,395,808	\$ 5,214,044	\$ 4,221,690

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

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

	1% Decrease (6.50%)	Current Healthcare Cost Trend Rate (7.50%)	1% Increase (8.50%)
District's proportionate share of the net OPEB liability	\$ 4,179,619	\$ 5,214,044	\$ 6,395,668

Pension and OPEB Plans Fiduciary Net Position

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

GRASS LAKE COMMUNITY SCHOOLS

Notes to Financial Statements

Payable to the Pension Plan

At June 30, 2020, the District reported a payable of \$348,505 for the outstanding amount of pension contributions to the Plan required for the year ended June 30, 2020.

Payable to the OPEB Plan

At June 30, 2020, the District reported a payable of \$54,570 for the outstanding amount of OPEB contributions to the Plan required for the year ended June 30, 2020.

15. CORONAVIRUS (COVID-19)

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

16. SUBSEQUENT EVENT

Installment Purchase Agreement

In July 2020, the District entered into a purchase agreement to purchase two buses for \$133,158. Payments are due on July 15 each year through July 15, 2024.



REQUIRED SUPPLEMENTARY INFORMATION

GRASS LAKE COMMUNITY SCHOOLS

Required Supplementary Information

MPSERS Cost-Sharing Multiple-Employer Plan

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

	Year Ended June 30,		
	2020	2019	2018
District's proportionate share of the net pension liability	\$ 24,197,042	\$ 22,100,071	\$ 18,860,343
District's proportion of the net pension liability	0.07307%	0.07352%	0.07278%
District's covered payroll	\$ 6,328,914	\$ 6,271,336	\$ 6,151,069
District's proportionate share of the net pension liability as a percentage of its covered payroll	382.33%	352.40%	306.62%
Plan fiduciary net position as a percentage of the total pension liability	60.31%	62.36%	64.21%

See notes to required supplementary information.



Year Ended June 30,		
2017	2016	2015
\$ 17,609,147	\$ 16,828,172	\$ 14,860,509
0.07058%	0.06890%	0.06747%
\$ 6,029,541	\$ 5,742,325	\$ 5,736,412
292.05%	293.06%	259.06%
63.27%	63.17%	66.20%

GRASS LAKE COMMUNITY SCHOOLS

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

	Year Ended June 30,		
	2020	2019	2018
Statutorily required contribution	\$ 1,988,227	\$ 1,932,738	\$ 2,060,370
Contributions in relation to the statutorily required contribution	<u>(1,988,227)</u>	<u>(1,932,738)</u>	<u>(2,060,370)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	\$ 6,396,155	\$ 6,290,094	\$ 6,248,360
Contributions as a percentage of covered payroll	31.08%	30.73%	32.97%

See notes to required supplementary information.



Year Ended June 30,		
2017	2016	2015
\$ 1,700,466	\$ 1,602,784	\$ 1,168,945
<u>(1,700,466)</u>	<u>(1,602,784)</u>	<u>(1,168,945)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 6,125,281	\$ 5,939,662	\$ 5,726,557
27.76%	26.98%	20.41%

GRASS LAKE COMMUNITY SCHOOLS

Required Supplementary Information

MPSERS Cost-Sharing Multiple-Employer Plan

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

	Year Ended June 30,		
	2020	2019	2018
District's proportionate share of the net OPEB liability	\$ 5,214,044	\$ 5,869,317	\$ 6,445,234
District's proportion of the net OPEB liability	0.07264%	0.07384%	0.07278%
District's covered payroll	\$ 6,328,914	\$ 6,271,336	\$ 6,151,069
District's proportionate share of the net OPEB liability as a percentage of its covered payroll	82.38%	93.59%	104.78%
Plan fiduciary net position as a percentage of the total OPEB liability	48.46%	42.95%	36.39%

See notes to required supplementary information.

GRASS LAKE COMMUNITY SCHOOLS

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

	Year Ended June 30,		
	2020	2019	2018
Statutorily required contribution	\$ 510,943	\$ 493,649	\$ 411,009
Contributions in relation to the statutorily required contribution	<u>(510,943)</u>	<u>(493,649)</u>	<u>(411,009)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	\$ 6,396,155	\$ 6,290,094	\$ 6,248,360
Contributions as a percentage of covered payroll	7.99%	7.85%	6.58%

See notes to required supplementary information.

GRASS LAKE COMMUNITY SCHOOLS

Notes to Required Supplementary Information

Pension Information

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

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

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

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

OPEB Information

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

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

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

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

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

October 7, 2020

Board of Education
Grass Lake Community Schools
Grass Lake, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the *Grass Lake Community Schools* (the "District"), as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated October 7, 2020.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses as item 2020-001, that we consider to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Grass Lake Community Schools' Response to Finding

The District's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Rehmann Lobson LLC

GRASS LAKE COMMUNITY SCHOOLS

Schedule of Findings and Responses

For the Year Ended June 30, 2020

2020-001 - Material Audit Adjustments

Finding Type. Material weakness in internal controls over financial reporting.

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

Condition. During our audit, we identified and proposed several material adjustments (which were approved and posted by management) to adjust the District's general ledger to the appropriate balances as follows:

- General fund cash was initially understated by approximately \$72,500;
- General fund accounts payable was initially overstated by approximately \$87,000;
- Food service fund accounts payable was initially understated by approximately \$21,000; and
- General fund accrued liabilities was initially overstated by approximately \$312,000.

Cause. This condition was the result of management oversight.

Effect. As a result of this condition, the District's accounting records were initially misstated by amounts that were material to the financial statements.

Recommendation. Management has already taken appropriate corrective action by reviewing and approving the proposed audit adjustments.

View of Responsible Officials. It should be noted that the long time Business Manager for Grass Lake Community Schools passed away unexpectedly in December 2019. The Business Manager job duties were managed by one other employee in the Business Office until the position could be filled. The job was filled in early January and the employee stayed with the District for a few weeks before moving on to another job. At that time, the District hired Janelle Sherwood as the Business Manager. Job responsibilities for the Business Manager position have been transitioned to Janelle and the District is committed to maintaining the highest professional standards within our Business office.

- General fund cash was initially understated by approximately \$72,500 - This was the June UAAL invoice that was not accrued due to the fact that our Business Office was not aware that payment would not be automatically drawn out of the account within the June timeframe. Given June closes the fiscal year, we have addressed the issue with our payroll specialist to make sure the Business Office is notified of actual scheduled payment date(s) , in order to allow for time to accrue necessary invoices.
- General fund accounts payable was initially overstated by approximately \$87,000 - An accounts payable reversal was not complete at the end of Fiscal Year 2019.

GRASS LAKE COMMUNITY SCHOOLS

Schedule of Findings and Responses

For the Year Ended June 30, 2020

- Food service fund accounts payable was initially understated by approximately \$21,000 - With the addition of the unanticipated school lunch program, our District provided meals for our community during COVID-19. This allowed for the federal reimbursements through the program and also the need for additional supplies. Historically, Grass Lake Community Schools has not participated in a Summer Food Program. This resulted in a food service invoice for the month of June not correctly being accrued
- General fund accrued liabilities was initially overstated by approximately \$312,000 - An error in positing a Journal Entry to benefits payable resulted in the health benefits accrual being done incorrectly.

Responsible Official. Business Manager.

Estimate Completion Date. Completed.

