



RIVER VALLEY SCHOOL DISTRICT

FINANCIAL STATEMENTS

June 30, 2020

**RIVER VALLEY SCHOOL DISTRICT
THREE OAKS, MICHIGAN
June 30, 2020**

BOARD OF EDUCATION

<u>Elected Member</u>	<u>Office</u>	<u>Term Expires</u>
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SUPERINTENDENT

William J. Kearney

BUSINESS MANAGER

Brian Brown

**RIVER VALLEY SCHOOL DISTRICT
THREE OAKS, MICHIGAN
June 30, 2020**

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Independent Auditor's Report

To the Board of Education of
River Valley School District
Three Oaks, 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 the River Valley School District (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.

Auditor's Responsibility

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

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

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

Opinions

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

Emphasis of Matter – Change in Accounting Principle

As discussed in Note 15 to the financial statements, the District implemented Governmental Accounting Standards Board Statement No. 84, *Fiduciary Activities*. Our opinion is not modified with respect to this matter.

Independent Auditor's Report, Concluded

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the River Valley School District's basic financial statements. The other supplementary information, as identified in the table of contents, is presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated ~~September 28, 2020~~, on our consideration of the River Valley School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements 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.

Respectfully submitted,

Certified Public Accountants

St. Joseph, Michigan
~~September 28, 2020~~

River Valley School District (the "District"), a K-12 School District located in Berrien County, Michigan follows the provisions of Governmental Accounting Standards Board Statement 34 ("GASB 34") with the enclosed financial statements. The Management's Discussion and Analysis, a requirement of GASB 34, is intended to be discussion and analysis of the financial results for the fiscal year ended June 30, 2020 of the management of the District.

Generally accepted accounting principles in the United States of America ("GAAP") and GASB 34 requires the reporting of two types of financial statements: District-Wide Financial Statements and Fund Financial Statements.

Fund Financial Statements

The fund level financial statements are reported on a modified accrual basis. Only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized to the extent they are normally expected to be paid with current financial resources.

The fund statements are formatted to comply with the legal requirements of the Michigan Department of Education's "Accounting Manual." In the State of Michigan, the District's major instructional and instructional support activities are reported in the General Fund. Additional activities are reported in their relevant funds including: Permanent Funds, Capital Projects Fund, School Service Fund, Debt Service Fund, and the Student Activity Fund.

In the fund financial statements, capital assets purchased by cash are reported as expenditures in the year of acquisition. No asset is reported. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long term obligations are recorded as expenditures. Future year's debt obligations are not recorded.

District-Wide Financial Statements

The District-wide financial statements are full accrual basis statements. They report all of the District's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, both short and long term, regardless if they are "currently available" or not. For example, assets that are restricted for use in the Debt Funds solely for the payment of long term principal or interest are grouped with unrestricted assets of the General Fund. Capital assets and long-term obligations of the District are reported in the Statement of Net Position of the District-wide financial statements.

The District as Trustee — Reporting the District's Fiduciary Responsibilities

The District is the trustee, or fiduciary, for its custodial funds. All of the District's fiduciary activities are reported in separate statements of fiduciary net position. These are excluded activities from the District's other financial statements because the District cannot use these assets to finance its operations. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes. After implementation of GASB No. 84, *Fiduciary Activities*, the District has moved all student activities into a special revenue fund called the Student Activity Fund and has no custodial funds.

Summary of Net Position

The District has a deficit net position as of June 30, 2020, and is summarized in the table below:

	June 30, 2020	June 30, 2019 (Restated)
Assets		
Current and other assets	\$ 4,736,508	\$ 5,545,796
Net capital assets	6,910,901	6,319,168
Total Assets	\$ 11,647,409	\$ 11,864,964
Deferred Outflows of Resources	\$ 6,016,628	\$ 5,741,208
Liabilities		
Current liabilities	\$ 996,232	\$ 964,286
Noncurrent liabilities	803,000	936,000
Net pension liability	16,296,946	14,629,385
Net OPEB liability	3,599,342	3,938,044
Total Liabilities	\$ 21,695,520	\$ 20,467,715
Deferred Inflows of Resources	\$ 2,544,098	\$ 2,582,569
Net Position		
Net investment in capital assets	\$ 5,974,901	\$ 5,250,168
Restricted	762,515	860,611
Unrestricted	(13,312,997)	(11,554,891)
Total Net Position	\$ (6,575,581)	\$ (5,444,112)

Analysis of Financial Position

During fiscal year ended June 30, 2020, the District’s net position decreased by \$1,131,469. A few of the significant factors affecting net position during the year are discussed below:

A. General Fund Operations

The District’s revenues in the General Fund revenues exceeded operations by \$27,229 for the fiscal year ended June 30, 2020. See the section entitled Results of Operations, on next page, for further discussion of General Fund operations.

B. Investment in Capital Assets

The District's net change in capital assets was an increase of \$591,733. The net activity for the year is summarized in the following table:

	Balance June 30, 2019	Additions and Adjustments	Disposals and Adjustments	Balance June 30, 2020
Capital Assets	\$ 13,217,899	\$ 1,377,011	\$ (401,370)	\$ 14,193,540
Less: accumulated depreciation	6,898,731	423,632	(39,724)	7,282,639
Net investment capital assets	<u>\$ 6,319,168</u>	<u>\$ 953,379</u>	<u>\$ (361,646)</u>	<u>\$ 6,910,901</u>

This year, the District added \$1,377,011 in capital assets; additions are primarily made up of \$1,252,726 for facility renovation (including \$361,646 reclassified from construction in process), \$100,147 for a bus and other vehicles, and \$24,138 for office equipment. The \$39,724 of deletions was from removal of various out-of-service equipment. The District plans to maintain a comparable level of capital spending for the 2020-2021 fiscal year as the capital replacement and improvement projects from the sinking fund millage continue. The District does not own any infrastructure assets.

C. Debt Activities

In prior years, the District approved a general bond obligation of \$2,000,000 which was used to enhance and re-equip existing school facilities. The activity for the year is summarized as follows:

	Balance June 30, 2019	Principal Additions	Principal Payments	Balance June 30, 2020
2012 School Building Bond	\$ 1,069,000	\$ -	\$ (133,000)	\$ 936,000
Total	<u>\$ 1,069,000</u>	<u>\$ -</u>	<u>\$ (133,000)</u>	<u>\$ 936,000</u>

Results of Operations

The District-wide results of operations for the fiscal years ended June 30th, is summarized in the table below:

	June 30, 2020	June 30, 2019 (Restated)
Revenues:		
General Revenues:		
Property taxes levied for general operations	\$ 8,023,914	\$ 8,202,669
Property taxes levied for capital projects	392,008	390,815
Other general revenues	207,469	152,511
Total general revenues	<u>\$ 8,623,391</u>	<u>\$ 8,745,995</u>
Charges for Services:		
Food service	\$ 60,956	\$ 75,558
Student activity	93,899	87,773
Other charges for services	20,292	22,269
Total charges for services	<u>\$ 175,147</u>	<u>\$ 185,600</u>
Operating Grants:		
Federal	622,774	\$ 408,014
State of Michigan	1,082,349	1,116,724
Other contributions	6,927	110,963
Total operating grants	<u>\$ 1,712,050</u>	<u>\$ 1,635,701</u>
Capital Grants/ Contributions:		
Federal interest subsidy	\$ 40,367	\$ 45,329
Total capital grants/contributions	<u>\$ 40,367</u>	<u>\$ 45,329</u>
Total revenues	<u>\$ 10,550,955</u>	<u>\$ 10,612,625</u>
Expenses:		
Instruction	\$ 5,755,910	\$ 4,775,971
Pupil services	703,507	606,604
Support services	3,936,475	3,832,181
Food service	413,243	350,685
Student activities	89,241	87,773
Athletics	317,391	314,212
Interest on long-term debt	43,025	48,491
Depreciation (unallocated)	423,632	374,594
Total expenses	<u>\$ 11,682,424</u>	<u>\$ 10,390,511</u>
Change in Net Position	<u>\$ (1,131,469)</u>	<u>\$ 222,114</u>
Beginning Net Position - as Restated	<u>(5,444,112)</u>	<u>(5,666,226)</u>
Ending Net Position	<u><u>\$ (6,575,581)</u></u>	<u><u>\$ (5,444,112)</u></u>

State of Michigan Unrestricted Aid (Net State Foundation Grant)

The State of Michigan unrestricted aid is determined by the following variables:

- a. State of Michigan State Aid Act per student foundation allowance,
- b. Student Enrollment - Blended at 90 percent of current year fall count and 10 percent of prior year winter count, and
- c. The District's non-homestead levy.

Per Student Foundation Allowance

Annually, the State of Michigan sets the per student foundation allowance. The District's net foundation allowance was \$8,292 per student for 2019-2020 and \$8,077 for 2018-2019 fiscal school years. The District is out of formula with the State of Michigan and receives an amount higher than the allocated foundation allowance. The District incurred a reduction of \$96,504 state aid revenue shortfall as a result from circumstances surrounding the COVID-19 pandemic.

Student Enrollment

The District's student enrollment for the fall count of 2019-2020 was 551 students. The District's enrollment decreased from the prior year count by 12 students. The following summarizes fall student enrollments in the past five years:

<u>Fiscal Year</u>	<u>Student FTE</u>	<u>FTE Change from Prior Year</u>
2019 - 2020	551.45	(11.88)
2018 - 2019	563.33	(11.21)
2017 - 2018	574.54	(0.38)
2016 - 2017	574.92	12.42
2015 - 2016	562.50	(36.82)

Subsequent to year ended June 30, 2020, preliminary student enrollments for 2020-2021 indicate that enrollments will primarily remain unchanged from 2019-2020.

Property Taxes Levied for General Operations (General Fund Non-Homestead Taxes)

The District levies approximately 18 mills of property taxes for operations (General Fund) on Non-Homestead properties. Under Michigan law, the taxable levy is based on the taxable valuation of properties. Annually, the taxable valuation increase in property values is capped at the rate of the prior year's CPI increase or 5 percent, whichever is less. At the time of sale, a property's taxable valuation is readjusted to the State Equalized Value, which is, theoretically, 50 percent of the market value.

The District's non-homestead property levy for the 2019-2020 fiscal year was \$8,023,914. The non-homestead tax levy has decreased by 2 percent over the prior year.

**Property Taxes Levied for General Operations (General Fund Non-Homestead Taxes),
Concluded**

The increase in the District’s non-homestead levy over the past five years is due to the make-up of the housing market, and that an increasing number of homes are becoming second homes. This is primarily due to the amount of lakefront property located within the District.

The following summarizes the District's non-homestead levy over the past five years:

Fiscal Year	Non-Homestead Tax Levy	% Change from Prior Year
2019 - 2020	\$ 8,023,914	-2.2%
2018 - 2019	8,202,669	0.3%
2017 - 2018	8,175,290	8.9%
2016 - 2017	7,508,605	3.5%
2015 - 2016	7,253,617	2.9%

Debt Fund Levy

The District had no debt fund levy during the current fiscal year. The future payments for the 2012 School Building Bond will be paid by the General Fund.

Food Sales to Students & Adults (School Lunch Program)

Compared to the prior school year, the District's food and milk sales to students and adults decreased from \$75,558 to \$60,956.

The total revenues from Food Service operations exceed total expenditures including transfers for the year by \$87,400.

General Fund Expenditures Budget vs. Actual Five Year History

	Expenditures			Variance	
	Preliminary Budget	Expenditures Final Budget	Expenditures Final Audit	Audit vs. Prelim Budget	Audit vs. Final Budget
2019 - 2020	\$ 9,708,370	\$9,734,752	\$ 9,545,739	-1.68%	-1.94%
2018 - 2019	9,560,552	10,706,698	10,354,215	8.30%	-3.29%
2017 - 2018	9,256,801	10,067,697	9,764,068	5.48%	-3.02%
2016 - 2017	9,060,644	8,632,570	8,372,552	-7.59%	-3.01%
2015 - 2016	8,449,995	8,707,643	8,341,097	-1.29%	-4.21%
Five Year Average Over (Under) Budget				<u>0.64%</u>	<u>-3.09%</u>

General Fund Revenues Budget vs. Actual Five Year History

	Revenues			Variance:	Variance:
	Preliminary	Revenues	Revenues	Audit vs.	Audit vs. Final
	Budget	Final Budget	Final Audit	Prelim. Budget	Budget
2019 - 2020	\$ 9,585,352	\$ 9,747,892	\$ 9,572,968	-0.13%	-1.79%
2018 - 2019	9,486,927	9,866,007	9,572,968	0.91%	-2.97%
2017 - 2018	9,094,181	9,754,793	9,785,283	7.60%	0.31%
2016 - 2017	8,774,287	8,961,172	8,915,264	1.61%	-0.51%
2015 - 2016	8,408,729	8,613,072	8,633,357	2.67%	0.24%
	Five Year Average: Over (Under) Budget			<u>2.53%</u>	<u>-0.95%</u>

Original vs. Final Budget

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the original budget for the upcoming fiscal year prior to July 1, the start of the fiscal year.

As a matter of practice, the District amends its budget during the school year. For fiscal year June 30, 2020, the budget was amended in October of 2019 and January, April and June of 2020. The June 2020 budget amendment was the final budget for the fiscal year.

Change from Original Budget:

General Fund Revenues:

Total Revenues Original Budget	\$ 9,585,352	100.00%
Total Revenues Final Amended Budget	<u>9,747,892</u>	<u>101.70%</u>
	<u>\$ 162,540</u>	<u>1.70%</u>

The District's original budget of general fund revenues differed from the final budget by \$162,540 a variance of approximately 1.70% from final budget. This was primarily due to the increase in more non-homestead denials than originally expected and additional State revenue.

Change from Original Budget:

General Fund Expenditures:

Total Expenditures Original Budget	\$ 9,708,370	100.00%
Total Expenditures Final Amended Budget	<u>9,734,752</u>	<u>100.27%</u>
	<u>\$ (26,382)</u>	<u>-0.27%</u>

The final expenditures budget increased due to changes in expectations from what was originally budgeted, primarily for minor changes in other expenditure functions.

Factors Bearing on the District's Future

With a General Fund balance of \$2,849,345 as of June 30, 2020, the District had a solid financial foundation going into the 2020-21 school year.

In November of 2014, River Valley voters approved a five year 0.5 mill sinking fund. Through the generous revenue received for our Sinking Fund from our communities, we were able to replace the roof over our M/HS cafeteria and auditorium as well as a playground structure at Three Oaks Elementary, landscaping at all three buildings and a new baseball fence.

Further, we were able to use Sinking Fund revenues to provide secure vestibules for all three buildings, completion of remaining M/HS restrooms as well as fixing the wooden door frames at Three Oaks Elementary. The sinking fund continues to allow the District to update our buildings to give our students a better educational experience. We thank our District residents for supporting our District through the Sinking Fund.

Also during the 2017-2018 school year, our Board of Education established a Facility Improvement fund which allows the District to tackle larger construction projects that might not be available via the Sinking Fund. This new fund allocated money to renovate the boys' and girls' locker rooms (with new lockers, heating and shower fixtures) as well as remodeling an existing space to be the new fitness center. The flexibility of the fund allows the school district to better monitor capital projects for the District.

We were also very fortunate to partner with the Pokagon Fund to help improve our student/teacher experiences. The Pokagon Fund provided \$65,130 to help our educators improve literacy by providing the resources to help improve instruction. Further, the Pokagon Fund paid for \$8,000 worth of field trips to enhance the educational experiences of our students.

We would like to thank The Pokagon Fund for their generous contributions and being our "partners in education"!

During the school year, we were able to upgrade our transportation fleet with the purchase of a new bus, as well as a new van. Our technology department was able to purchase classroom sets of Chromebooks to facilitate student learning.

The Board of Education is committed to maintaining the fund balance at 20% or more to ensure that the district remains financially viable in the coming years.

With positive guidance received from our Board of Education as well as valuable input from our community, parents and staff, we look forward to building an even stronger District.

With the current Michigan Coronavirus situation, students have been given the choice of online or in person instruction for the 2020/2021 school year. In addition, federal funds have been allocated to the District to help offset some of the costs associated with the current pandemic.

Contacting the District's Financial Management

The financial report is designed to provide our citizens and taxpayers with a general overview of the District's finances. If you have questions about this report or need additional information, please contact the Business Office at the District.

RIVER VALLEY SCHOOL DISTRICTSTATEMENT OF NET POSITION
YEAR ENDED JUNE 30, 2020

	<u>Governmental Activities</u>
Assets	
Cash and cash equivalents	\$ 4,046,534
Investments	74,006
Due from other governmental units	599,356
Prepaid expenses	2,119
Inventories	14,493
Capital assets - non-depreciable	38,766
Capital assets - depreciable, net	6,872,135
Total Assets	<u>\$ 11,647,409</u>
Deferred Outflows of Resources	
Deferred outflows of resources related to pensions	\$ 4,818,589
Deferred outflows of resources related to OPEB	1,198,039
Total Deferred Outflows of Resources	<u>\$ 6,016,628</u>
Liabilities	
Accounts payable	\$ 93,543
Accrued payroll and other liabilities	763,277
Accrued interest	6,412
Noncurrent liabilities:	
Bonds payable, due within one year	133,000
Bonds payable, due in more than one year	803,000
Net pension liability	16,296,946
Net OPEB liability	3,599,342
Total Liabilities	<u>\$ 21,695,520</u>
Deferred Inflows of Resources	
Deferred inflows of resources related to pensions	\$ 1,156,229
Deferred inflows of resources related to OPEB	1,387,869
Total Deferred Inflows of Resources	<u>\$ 2,544,098</u>
Net Position	
Net investment in capital assets	\$ 5,974,901
Restricted for:	
Scholarships	574,617
Student activities	92,431
Debt service	1,273
Sinking Fund	94,194
Unrestricted	(13,312,997)
Total Net Position	<u>\$ (6,575,581)</u>

The Notes to Financial Statements are an integral part of this statement.

RIVER VALLEY SCHOOL DISTRICT

STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2020

Functions/Programs	Expenses	Charges for Services	Operating Grants/ Contributions	Capital Grants/ Contributions	Net (Expense) Revenue and Changes in Net Position
Primary government - Governmental activities:					
Instruction	\$ 5,755,910	\$ -	\$ 1,328,859	\$ -	\$ (4,427,051)
Pupil services	703,507	-	-	-	(703,507)
Support services	3,936,475	-	-	-	(3,936,475)
Food services	413,243	60,956	383,191	-	30,904
Student activities	89,241	93,899	-	-	4,658
Athletics	317,391	20,292	-	-	(297,099)
Interest on long-term debt	43,025	-	-	40,367	(2,658)
Depreciation (unallocated)	423,632	-	-	-	(423,632)
	<u>\$11,682,424</u>	<u>\$ 175,147</u>	<u>\$ 1,712,050</u>	<u>\$ 40,367</u>	<u>\$ (9,754,860)</u>
General revenues:					
Taxes:					
Property taxes, levied for general purposes					\$ 8,023,914
Property taxes, levied for capital projects					392,008
Interest and investment earnings					105,279
Other					<u>102,190</u>
Total general revenues					<u>\$ 8,623,391</u>
Change in Net Position					\$ (1,131,469)
Net Position - beginning of year, as restated (Note 15)					<u>(5,444,112)</u>
Net Position - end of year					<u><u>\$ (6,575,581)</u></u>

The Notes to Financial Statements are an integral part of this statement.

RIVER VALLEY SCHOOL DISTRICT

GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2020

	General Fund	Facility Improvement Fund	Scholarship Fund	Non-major Governmental Funds	Total
Assets					
Cash and cash equivalents	\$ 2,997,027	\$ 149,824	\$ 574,617	\$ 325,066	\$ 4,046,534
Investments	74,006	-	-	-	74,006
Due from other governmental units	470,413	-	-	122,531	592,944
Due from other governmental funds	66,203	-	-	329	66,532
Prepaid expenses	2,119	-	-	-	2,119
Inventories	-	-	-	14,493	14,493
Total Assets	\$ 3,609,768	\$ 149,824	\$ 574,617	\$ 462,419	\$ 4,796,628
Liabilities and Fund Balances					
Liabilities					
Accounts payable	\$ 5,576	\$ -	\$ -	\$ 87,967	\$ 93,543
Accrued salaries and withholdings	754,518	-	-	8,759	763,277
Due to other governmental funds	329	-	-	66,203	66,532
Total Liabilities	\$ 760,423	\$ -	\$ -	\$ 162,929	\$ 923,352
Fund Balances					
Non-spendable:					
Used for inventories	\$ -	\$ -	\$ -	\$ 14,493	\$ 14,493
Used for prepaid expenses	2,119	-	-	-	2,119
Committed:					
Facility improvements	-	149,824	-	-	149,824
Restricted:					
Scholarships	-	-	574,617	-	574,617
Student activities	-	-	-	92,431	92,431
Food service	-	-	-	97,099	97,099
Debt service	-	-	-	1,273	1,273
Sinking Fund	-	-	-	94,194	94,194
Assigned:					
2020/2021 budget deficit	126,432	-	-	-	126,432
Technology	51,566	-	-	-	51,566
Curriculum	176,039	-	-	-	176,039
Unassigned	2,493,189	-	-	-	2,493,189
Total Fund Balances	\$ 2,849,345	\$ 149,824	\$ 574,617	\$ 299,490	\$ 3,873,276
Total Liabilities and Fund Balances	\$ 3,609,768	\$ 149,824	\$ 574,617	\$ 462,419	\$ 4,796,628

The Notes to Financial Statements are an integral part of this statement.

RIVER VALLEY SCHOOL DISTRICT**RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUNDS
TO STATEMENT OF NET POSITION
JUNE 30, 2020**

Total Fund Balances - Governmental Funds \$ 3,873,276

Amounts reported for governmental activities in the Statement of Net Position are different because:

Deferred outflows of resources related to:

Pensions	4,818,589
OPEB	1,198,039

Accrual of federal receivable for interest payments related to the 2012 School Building Bonds	6,412
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Amounts reported for governmental activities in the Statement of Net Position are different because, capital assets used in governmental activities are not financial resources and are not reported in the funds:

Cost of the capital assets	14,193,540
Accumulated depreciation	(7,282,639)

Long-term liabilities are not due and payable in the current period and are not reported in the funds:

Bonds payable	(936,000)
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Net pension liability	(16,296,946)
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Net OPEB liability	(3,599,342)
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Deferred inflows of resources related to differences between expected and actual experience and changes in proportion and differences between employer contributions and proportionate share of contributions:

Pensions	(602,372)
OPEB	(1,387,869)

Revenue in support of pension contributions made subsequent to the measurement date	(553,857)
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Accrued interest payable is not included as a liability in the funds	(6,412)
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Total Net Position (Deficit) - Governmental Activities	<u>\$ (6,575,581)</u>
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The Notes to Financial Statements are an integral part of this statement.

RIVER VALLEY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS YEAR ENDED JUNE 30, 2020

	General Fund	Facility Improvement Fund	Scholarship Fund	Non-major Governmental Funds	Total
Revenues					
Property taxes	\$ 8,023,914	\$ -	\$ -	\$ 392,008	\$ 8,415,922
Local sources	102,190	-	-	154,855	257,045
State sources	1,068,175	-	-	14,174	1,082,349
Federal sources	212,479	-	-	410,295	622,774
Athletic sources	20,292	-	-	-	20,292
Interdistrict sources	91,024	-	-	-	91,024
Earnings on investments	54,894	2,151	45,769	2,465	105,279
Total Revenues	<u>\$ 9,572,968</u>	<u>\$ 2,151</u>	<u>\$ 45,769</u>	<u>\$ 973,797</u>	<u>\$ 10,594,685</u>
Expenditures					
Instruction	\$ 4,920,518	\$ -	\$ -	\$ -	\$ 4,920,518
Pupil services	642,493	-	-	-	642,493
Supporting services	3,541,340	-	65,747	-	3,607,087
Food service	-	-	-	376,824	376,824
Student activities	-	-	-	89,241	89,241
Athletics	285,888	-	-	-	285,888
Capital outlay	-	772,145	-	564,787	1,336,932
Debt service					
Principal	-	-	-	133,000	133,000
Interest	-	-	-	43,936	43,936
Total Expenditures	<u>\$ 9,390,239</u>	<u>\$ 772,145</u>	<u>\$ 65,747</u>	<u>\$ 1,207,788</u>	<u>\$ 11,435,919</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>\$ 182,729</u>	<u>\$ (769,994)</u>	<u>\$ (19,978)</u>	<u>\$ (233,991)</u>	<u>\$ (841,234)</u>
Other Financing Sources (Uses)					
Operating transfers in	\$ -	\$ -	\$ -	\$ 155,500	\$ 155,500
Operating transfers out	(155,500)	-	-	-	(155,500)
Total Other Financing	<u>\$ (155,500)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 155,500</u>	<u>\$ -</u>
Net Change in Fund Balances	\$ 27,229	\$ (769,994)	\$ (19,978)	\$ (78,491)	\$ (841,234)
Fund Balances - Beginning of year, as restated (Note 15)	<u>2,822,116</u>	<u>919,818</u>	<u>594,595</u>	<u>377,981</u>	<u>4,714,510</u>
Fund Balances - End of year	<u><u>\$ 2,849,345</u></u>	<u><u>\$ 149,824</u></u>	<u><u>\$ 574,617</u></u>	<u><u>\$ 299,490</u></u>	<u><u>\$ 3,873,276</u></u>

The Notes to Financial Statements are an integral part of this statement.

RIVER VALLEY SCHOOL DISTRICT**RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2020**

Net Change in Fund Balances - Total Governmental Funds \$ (841,234)

Amounts reported for governmental activities in the
Statement of Activities are different because:

Governmental funds report capital outlays as
expenditures in the Statement of Revenues,
Expenditures and Changes in Fund Balance, these
costs are allocated over their estimated useful lives as
depreciation in the Statement of Activities

Depreciation expense	(423,632)
Capital outlay	1,015,365

Current year decrease in accrued federal receivable for interest payments related to the 2012 School Building Bonds that will be received after 60 days, but earned by June 30, 2020	(911)
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Change in accrued interest	911
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Revenue in support of pension contributions made subsequent to the measurement date	(6,400)
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Change in benefit expense related to pension	(1,249,551)
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Change in benefit expense related to OPEB	240,983
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Repayment of bond principal is an expenditure in the governmental funds, but not in the Statement of Activities (where it reduces long-term debt)	<u>133,000</u>
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Change in Net Position of Governmental Activities	<u><u>\$ (1,131,469)</u></u>
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NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the River Valley School District (the “District”) conform to accounting principles generally accepted in the United States of America (“GAAP”) as applicable to governmental units and with the rules prescribed in the accounting manual by the Michigan Department of Education. The following is a summary of the significant accounting policies used by the District:

Reporting Entity

The District is governed by an elected seven-member Board of Education. The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board (“GASB”) for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the Districts’ reporting entity, and which organizations are legally separate, component units of the District. Based on the application of the criteria, the District contains no component units.

District-Wide and Fund Financial Statements

The District-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the nonfiduciary activities of the primary government. 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. All of the District’s district-wide activities are considered governmental activities.

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

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**Measurement Focus, Basis of Accounting and Financial Statement Presentation**

District-Wide Statements - The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes 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.

The fiduciary fund financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, except for the recognition of certain liabilities to the beneficiaries of a fiduciary activity. Liabilities to beneficiaries are recognized when an event has occurred that compels the District to disburse fiduciary resources.

Fund Based Statements — The governmental funds financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Under the modified accrual basis of accounting, revenues are recorded when they become measurable and available. “Available” means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and severance pay, are recorded only when payment is due.

Property taxes, unrestricted state aid, intergovernmental grants and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government. The fiduciary fund statement is also reported using the economic resources measurement focus and the accrual basis of accounting.

The District reports the following major governmental funds:

The **General Fund** is the District’s primary operating fund. It accounts for all financial resources of the District, except those required to be accounted for in another fund.

The **Facility Improvement Fund** is used to account for financial resources that are committed for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

The **Scholarship Fund** is a permanent fund used to account for the District’s non-expendable scholarship where only the earnings are used to issue scholarships.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Additionally, the government reports the following fund types:

Capital Projects Funds are used to account for financial resources that are restricted for capital outlays, including the acquisition or construction of capital facilities and other capital assets. As of June 30, 2020, the capital projects funds, other than the Facility Improvement Fund maintained by the District, is the Capital Projects Sinking Fund.

Special Revenue Funds are used to account for specific revenue sources that are restricted or committed expenditures for specific purposes other than debt service or capital projects. As of June 30, 2020, special revenue funds maintained by the District are the Food Service Fund and Student Activities Fund.

Debt Service Funds are used to account for and report financial resources that are restricted for principal and interest. As of June 30, 2020, the debt service fund maintained by the District is the 2012 Debt Service Fund.

Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position or Equity

Deposits and Investments - Cash and cash equivalents include cash on hand, demand deposits and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables - In general, outstanding balances between funds are reported as “due to/from other funds.” Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as “advances to/from other funds.”

Property Taxes - Property tax and other trade receivables are shown net of an allowance for uncollectible amounts. For District taxpayers, properties are assessed as of December 31 and the related property taxes are levied and become a lien on July 1. The final collection date is February 28, after which uncollected taxes are added to the Berrien County delinquent tax rolls.

State Aid - The State of Michigan (the “State”) utilizes a foundation allowance approach, which provides for a specific annual amount of revenue per student based on a state-wide formula. The foundation allowance is funded from a combination of state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The State portion of the foundation is provided from the State’s School Aid Fund and is recognized as revenue in accordance with state law and accounting principles generally accepted in the United States of America.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Inventories - Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. United States Department of Agriculture Commodities inventory received by the Food Service Fund are recorded as inventory and deferred revenue until used.

Prepaid Items - Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both district-wide and fund financial statements

Capital Assets - Capital assets, which include land, buildings, equipment, and vehicles are reported in the applicable governmental column in the district-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 fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extended asset life are not capitalized. The District does not have infrastructure type assets. Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and additions	20-50 years
Buses and other vehicles	5-10 years
Furniture and other equipment	5-20 years
Land Improvements	10-20 years

Deferred Outflows of Resources - In addition to assets, the Statement of Net 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 so will not be recognized as an outflow of resources (expense/expenditure) until then. The District has two items that qualify for reporting in this category. These deferred outflows relate to the pension and OPEB plans.

Compensated Absences - the liability for compensated absences, if any, reported in the district-wide statements consists of unpaid, accumulated annual and vacation balances. The liability is calculated using the vesting method, in which leave amounts for both employees who are currently eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. There was no liability for compensated absences at June 30, 2020.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Long-Term Obligations - In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as expenditures in the year of issuance. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Deferred Inflows of Resources - In addition to liabilities, the Statement of Net 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 a future period(s) and will not be recognized as an inflow of sources (revenue) until that time. The governmental funds report unavailable revenues, which arise only under a modified accrual basis of accounting, for long-term receivables. These amounts are deferred and recognized as an inflow of resources in the period that amounts become available. The District has two items that qualify for reporting in this category. These deferred inflows relate to the pension and OPEB plans.

Comparative Data - Comparative data is not included in the District's financial statements.

Fund Equity - The District follows GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

The following are the District's fund balance break-outs:

Non-Spendable - This includes those 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 - This includes amounts that can be spent only for specific purposes stipulated by what the external resources provide (for example grant providers, constitutionally, or through enabling legislation.) These restrictions may be changed or lifted only with the consent of resource providers

Committed - This includes amounts that can be used only for specific purposes determined by a formal action of the government's highest level of decision-making authority. Commitments may be changed or lifted only by the government taking the same formal action that imposed the constraint originally.

Assigned - This includes amounts that are constrained by the District's intent to be used for a specific purpose, but are neither restricted nor committed.

Unassigned - This represents the residual classification for the fund balance that has not met any of the previous classifications.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Net Position Flow Assumption - Sometimes the District will fund outlays for particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts of net position to report as restricted and unrestricted in the district-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied.

It is the District's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

Pension and Other Postemployment Benefit (OPEB) Plans - For the purposes of measuring the net pension and net OPEB liabilities, deferred outflows of resources and deferred inflows of resources related to each plan, and pension and OPEB expense, information about the fiduciary net position of the Michigan Public School Employees Retirement System ("MPSERS") and additions to/deductions from MPSERS fiduciary net position have been determined on the same basis as they are reported by MPSERS. Contribution revenue is recorded as contributions are due, pursuant to legal requirements. 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.

Estimates - The process of preparing financial statements in conformity with GAAP requires the use of management estimates and assumptions regarding certain types of assets, deferred outflows of resources, liabilities, deferred inflows of resources, revenues and expenditures.

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

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body (i.e. the level at which expenditures may not legally exceed appropriations) is the function level. State law requires the District to have its budget in place by July 1. Expenditures in excess of amounts budgeted is a violation of State Law. State law permits districts to amend its budgets during the year. There were four amendments during the year.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONCLUDED)

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the goods or services have not been received as of year-end; the commitments will be re-appropriated and honored during the subsequent year.

Fund Deficit - Under State Law, school districts are required to maintain positive fund balance in each fund. The District had no fund balances that were in deficit.

Net Position (Deficit) - As of June 30, 2020, the District-wide Statement of Net Position Had a cumulative net position deficit of \$6,578,581.

NOTE 3. DEPOSITS AND INVESTMENTS

As of June 30, 2020, the District deposits and investments include the following:

	Balance Sheet Classification			Total
	Cash and Cash Equivalents	Investments		
Deposits	\$ 4,046,534	\$ -	\$	4,046,534
Investments	-	74,006		74,006
	<u>\$ 4,046,534</u>	<u>\$ 74,006</u>	<u>\$</u>	<u>4,120,540</u>

Bank Deposits: All cash of the District is on deposit with financial institutions which provide FDIC insurance coverage or in highly liquid pooled money funds.

Custodial Credit Risk—Deposits: In the case of deposits, this is the risk that in the event of a bank failure, the District’s deposits may not be returned to it. As of June 30, 2020, approximately \$2.4 million of the District’s bank balance of \$3.6 million was exposed to custodial credit risk, because it was uninsured and collateralized with securities held by the pledging financial institution’s trust department or agent, but not in the District’s name.

Investments: State law permits investments in: 1) Bonds and other obligations of the United States Governments, 2) Certificates of deposit and savings accounts of banks or credit unions who are members of the FDIC and FSLIC, respectively, 3) Certain commercial paper, 4) United States Government repurchase agreements, 5) Banker’s acceptance of the United States Bank, and 6) Certain mutual funds. The District has put further restrictions on those investments through its current policy, and the following investment is permitted by law and policy.

Investment Type	Fair Value	Investment Maturities			
		Current	1-5 years	6-10 years	More than 10
Investment Pools	<u>\$ 74,006</u>	<u>\$ 74,006</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

NOTE 3. DEPOSITS AND INVESTMENTS (CONCLUDED)

Interest Rate Risk: In accordance with its investment policy, the District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by: structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the District's cash requirements.

Credit Risk: State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by Nationally Recognized Statistical Rating Organizations ("NRSRO's"). As of June 30, 2020, the District's investment in the investment pool was rated AAAM by Standard's & Poor's.

Concentration of Credit Risk: The District will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized. All of the District's investments are in investment pools which represent 100% of the District's total investments.

Custodial Credit Risk - Investments: For an Investment, this is the risk that in the event of bank failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. Of the investments in the investment pool of \$74,006, the District has a custodial credit risk exposure of \$74,006 because the related securities are uninsured, unregistered, and held by the District's brokerage firm which is also the counterparty for these particular securities.

NOTE 4. FAIR VALUE MEASUREMENT

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments that are measured at fair value using the net asset value per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy below.

NOTE 4. FAIR VALUE MEASUREMENT

In instances whereby inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The District’s assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset. The District has the following recurring fair value measurements as of June 30, 2020:

	Acquisition Value Measurement Using			
	Level 1	Level 2	Level 3	Total
Investment Pools	\$ -	\$74,006	\$ -	\$74,006

NOTE 5. CAPITAL ASSETS

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

	Beginning Balance	Additions	Disposals and Adjustments	Ending Balance
Assets not being Depreciated				
Construction in progress	\$ 361,646	\$ -	\$ (361,646)	\$ -
Land	38,766	-	-	38,766
Subtotal	\$ 400,412	\$ -	\$ (361,646)	\$ 38,766
Capital Assets being Depreciated				
Building and building improvements	\$ 9,743,355	\$ 1,252,726	\$ -	\$ 10,996,081
Land improvements	783,439	-	-	783,439
Buses and other vehicles	1,009,023	100,147	-	1,109,170
Furniture and equipment	1,281,670	24,138	(39,724)	1,266,084
Subtotal	\$ 12,817,487	\$ 1,377,011	\$ (39,724)	\$ 14,154,774
Accumulated depreciation				
Building and building improvements	\$ 4,980,639	\$ 237,157	\$ -	\$ 5,217,796
Land improvements	500,801	6,976	-	507,777
Buses and other vehicles	709,198	84,036	-	793,234
Furniture and equipment	708,093	95,463	(39,724)	763,832
Subtotal	\$ 6,898,731	\$ 423,632	\$ (39,724)	\$ 7,282,639
Net capital assets being depreciated	\$ 5,918,756	\$ 953,379	\$ -	\$ 6,872,135
Net capital assets	\$ 6,319,168			\$ 6,910,901

Depreciation expense of \$423,632 was not charged to activities as the District considers its assets to impact multiple activities and allocation is not practical.

NOTE 6. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The composition of interfund balances is as follows:

Receivable fund	Payable fund	Amount
General Fund	Food Service	\$ 329
Food Service	General Fund	<u>66,203</u>
	Total	<u>\$ 66,532</u>

The General Fund owes the Food Service Fund at-risk funding.

The Food Service Fund owes the General Fund for expenditures paid by the General Fund but relating to Food Service Fund.

During the year, the following transfers were made between funds:

Transfer In:	Transfer Out:	Amount
Non-major Fund - Food Service Fund	General Fund	\$ 20,000
Non-major Fund - 2012 Debt Service Fund	General Fund	<u>135,500</u>
	Total	<u>\$ 155,500</u>

The current year transfers consisted of a transfer from the General Fund to the Debt Service Fund for payment of the bond principal and a portion of interest payment, and a transfer from the General Fund to the Food Service Fund to support Food Service activities.

NOTE 7. LONG-TERM DEBT

The District issues bonds to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the District. Long-term obligation activity can be summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<i>Governmental Activities:</i>					
Bonds	\$1,069,000	\$ -	\$ (133,000)	\$ 936,000	\$133,000
Total bonds payable	<u>\$1,069,000</u>	<u>\$ -</u>	<u>\$ (133,000)</u>	<u>\$ 936,000</u>	<u>\$133,000</u>

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

	<i>Governmental Activities:</i>		
	Principal	Interest	Total
2021	\$ 133,000	\$ 38,469	\$ 171,469
2022	133,000	33,003	166,003
2023	134,000	27,537	161,537
2024	134,000	22,029	156,029
2025	134,000	16,523	150,523
2026-2027	268,000	16,522	284,522
	<u>\$ 936,000</u>	<u>\$ 154,083</u>	<u>\$ 1,090,083</u>

Interest expense of \$43,025 was not charged to activities as the District considers its debt and related assets to impact multiple activities and allocation was not practical.

Governmental Activities:

General obligation bonds consist of:

\$2,000,000 2012 School Building Bonds - Limited Tax; payable in annual installments of \$133,000 to \$134,000 beginning 5/1/13 through 5/1/2027; interest at 4.11%.

\$ 936,000

NOTE 8. 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 health claims and participates in the SET/SEG (risk pool) for claims relating to workers' compensation and property/casualty claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The shared-risk pool is a program in which the District participates and operates as a common risk-sharing management program for school districts in Michigan. Member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

NOTE 9. CAPITAL PROJECTS SINKING FUND

The Capital Projects Sinking Fund records capital project activities funded with Sinking Fund millage. For this fund, the District has complied with the applicable provisions of Section 1212 of the Revised School Code.

NOTE 10. RELATED PARTY TRANSACTION

During the year, the District has monies on deposit with Honor Credit Union. The Business Manager is a member of the credit union's Board. As of June 30, 2020, the District has \$132,606 in multiple accounts with Honor Credit Union. All transactions were conducted at arms-length.

NOTE 11. CONTINGENT LIABILITIES

Grants – In the normal course of operations, the District receives grant funds from various Federal and State agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to insure compliance with conditions precedent to the granting funds. Any liability for reimbursement which may arise as the result of these audits is not believed to be material.

NOTE 12. MICHIGAN PUBLIC SCHOOL EMPLOYEES’ RETIREMENT SYSTEM

Plan Description - The Michigan Public School Employees’ Retirement System (“MPSERS”) (“System”) is a costsharing, multiple employer, state-wide, defined benefit public employee retirement plan governed by the State of Michigan (“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. MPSERS issues a publicly available Comprehensive Annual Financial Report that can be obtained at www.michigan.gov/orsschools.

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 option of receiving health, prescription drug, dental and vision coverage under the Michigan Public School Employees’ Retirement Act.

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 of Michigan Investment Board serves as the investment fiduciary and custodian for the System.

Benefits Provided - Overall – participants are enrolled in one of multiple plans based on date of hire and certain voluntary elections. A summary of the plan offered by MPSERS is as follows:

<u>Plan Name</u>	<u>Plan Type</u>	<u>Plan Status</u>
Basic	Defined Benefit	Closed
Member Investment Plan	Defined Benefit	Closed
Pension Plus	Hybrid	Closed
Pension Plus 2	Hybrid	Open
Defined Contribution	Defined Contribution	Open

Benefits Provided - Pension - 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. Retirement benefits for DB plan members are determined by final average compensation and years of service. 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.

NOTE 12. MICHIGAN PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM (CONTINUED)

Prior to Pension reform of 2010 there were two plans commonly referred to as Basic and the Member Investment Plan ("MIP"). Basic Plan member's contributions range from 0% - 4%. On January 1, 1987, the MIP was enacted. MIP members enrolled prior to January 1, 1990, contribute at a permanently fixed rate of 3.9% of gross wages. Members first hired January 1, 1990, or later including Pension Plus Plan members, contribute at various graduated permanently fixed contribution rates from 3.0% - 7.0%.

Pension Reform 2010 - On May 19, 2010, the Governor signed Public Act 75 of 2010 into law. As a result, any member of MPSERS who became a member of MPSERS after June 30, 2010 is a Pension Plus member. Pension Plus is a hybrid plan that contains a pension component with an employee contribution (graded, up to 6.4% of salary) and a flexible and transferable defined contribution ("DC") tax-deferred investment account that earns an employer match of 50% (up to 1% of salary) on employee contributions. Retirement benefits for Pension Plus members are determined by final average compensation and years of service. Disability and survivor benefits are available to Pension Plus members.

Pension Reform 2012 - On September 4, 2012, the Governor signed Public Act 300 of 2012 into law. The legislation grants all active members who first became a member before July 1, 2010 and 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 pension. Any changes to a member's pension are effective as of the member's transition date, which is defined as the first day of the pay period that begins on or after February 1, 2013.

Under the reform, members voluntarily chose to increase, maintain, or stop their contributions to the pension fund.

An amount determined by the member's election of Option 1, 2, 3, or 4 described below:

Option 1 - Members voluntarily elected to increase their contributions to the pension fund as noted below, and retain the 1.5% pension factor in their pension formula. The increased contribution would begin as of their transition date and continue until they terminate public school employment.

- Basic plan members: 4% contribution
- MIP-Fixed, MIP-Graded, and MIP-Plus members: a flat 7% contribution

Option 2 - Members voluntarily elected to increase their contribution to the pension fund as stated in Option 1 and retain the 1.5% pension factor in their pension formula. The increased contribution would begin as of their transition date and continue until they reach 30 years of service. If and when they reach 30 years of service, their contribution rates will return to the previous level in place as of the day before their transient date (0% for Basic plan members, 3.9% for MIP-Fixed, up to 4.3% for MIP-Graded, or up to 6.4% for MIP-Plus). The pension formula for any service thereafter would include a 1.25% pension factor.

NOTE 12. MICHIGAN PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM (CONTINUED)

Option 3 - Members voluntarily elected not to increase their contribution to the pension fund and maintain their current level of contribution to the pension fund. The pension formula for their years of service as of the day before their transition date will include a 1.5% pension factor. The pension formula for any service thereafter will include a 1.25% pension factor.

Option 4 - Members voluntarily elected to no longer contribute to the pension fund and therefore are switched to the Defined Contribution plan for future service as of their transition date. As a DC participant they receive a 4% employer contribution to the tax-deferred 401(k) account and can choose to contribute up to the maximum amounts permitted by the IRS to a 457 account. They vest in employer contributions and related earnings in their 401(k) account based on the following schedule: 50% at 2 years, 75% at 3 years, and 100% at 4 years of service. They are 100% vested in any personal contributions and related earnings in their 457 account. Upon retirement, if they meet age and service requirements (including their total years of service), they would also receive a pension (calculated based on years of service and final average compensation as of the day before their transition date and a 1.5% pension factor).

Members who did not make an election before the deadline defaulted to Option 3 as described above. Deferred or nonvested public school employees on September 3, 2012, who return to public school employment on or after September 4, 2012, will be considered as if they had elected Option 3 above. Returning members who made the retirement plan election will retain whichever option they chose.

Employees who first work on or after September 4, 2012 choose between two retirement plans: the Pension Plus Plan and a Defined Contribution that provides a 50% employer match up to 3% of salary on employee contributions.

Final Average Compensation ("FAC") - Average of highest 60 consecutive months for Basic Plan members and Pension Plus members (36 months for MIP members). FAC is calculated as of the last day worked unless the member elected Option 4, in which case the FAC is calculated at the transition date.

Pension Reform of 2017 - On July 13, 2017, the Governor signed Public Act 92 of 2017 into law. The legislation closed the Pension Plus plan to newly hired employees as of February 1, 2018 and created a new, optional Pension Plus 2 plan with similar plan benefit calculations but containing a 50/50 cost share between the employee and the employer, including the cost of future unfunded liabilities. The assumed rate of return on the Pension Plus 2 plan is 6%. Further, under certain adverse actuarial conditions, the Pension Plus 2 plan will close to new employees if the actuarial funded ratio falls below 85% for two consecutive years. The law included other provisions to the retirement eligibility age, plan assumptions, and unfunded liability payment methods.

NOTE 12. MICHIGAN PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM (CONTINUED)

Benefits Provided - Other Postemployment Benefit (OPEB) - 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 health care 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.

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

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

Regular Retirement (no reduction factor for age) - Eligibility - A Basic plan member may retire at age 55 with 30 years credited service; or age 60 with 10 years credited service. For MIP members, age 46 with 30 years credited service; or age 60 with 10 years credited service; or age 60 with 5 years of credited service provided member worked through 60th birthday and has credited service in each of the last 5 years. For Pension Plus Plan ("PPP") members, age 60 with 10 years of credited service.

NOTE 12. MICHIGAN PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM (CONTINUED)

Annual Amount - The annual pension is paid monthly for the lifetime of a retiree. The calculation of a member's pension is determined by their pension election under PA 300 of 2012.

Member Contributions - Depending on the plan selected, member contributions range from 0% - 7% for pension and 0% - 3% for other postemployment benefits. Plan members electing the Defined Contribution plan are not required to make additional contributions.

Employer Contributions - Employers are required by Public Act 300 of 1980, as amended, to contribute amounts necessary to finance the coverage of pension benefits and OPEB. 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 normal cost is the annual cost assigned under the actuarial funding method, to the current and subsequent plan years. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis.

Pension and OPEB contributions made in the fiscal year ending September 30, 2019 were determined as of the September 30, 2016 actuarial valuations. The pension and OPEB benefits, the unfunded (overfunded) actuarial accrued liabilities as of September 30, 2016 are amortized over a 20-year period beginning October 1, 2018 and ending September 30, 2038.

School districts' contributions are determined based on employee elections. There are several different benefit options included in the plan available to employees based on date of hire. Contribution rates are adjusted annually by the ORS. The range of rates is as follows:

	Pension	Other Postemployment Benefits
October 1, 2018 - September 30, 2019	13.39% - 19.59%	7.57% - 7.93%
October 1, 2019 - September 30, 2020	13.39% - 19.59%	7.57% - 8.09%

NOTE 12. MICHIGAN PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM (CONTINUED)

The District's pension contributions for the year ended June 30, 2020 were equal to the required contribution total. Total pension contributions were \$1,324,767.

The District's OPEB contributions for the year ended June 30, 2020 were equal to the required contribution total. Total OPEB contributions were \$321,340.

These amounts, for both pension and OPEB benefit, include contributions funded from State Revenue Section 147c restricted to fund the MPSERS Unfunded Actuarial Accrued Liability ("UAAL") Stabilization Rate (100% for pension and 0% for OPEB).

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

Pension Liabilities - 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 date of September 30, 2018 and rolled-forward using generally accepted actuarial procedures. The District's proportion of the net pension liability was based on a projection of its long-term share of contributions to the pension plan relative to the projected contributions of all participating reporting units, actuarially determined.

MPSERS (Plan) Non-university employers	September 30, 2019	September 30, 2018
Total pension liability	\$ 83,442,507,212	\$ 79,863,694,444
Plan fiduciary net position	50,325,869,388	49,801,889,205
Net pension liability	33,116,637,824	30,061,805,239
Proportionate share	0.04921%	0.04866%
Net pension liability for the District	16,296,946	14,629,385

For the year ended June 30, 2020, the District recognized pension expense of \$2,630,717.

NOTE 12. MICHIGAN PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM (CONTINUED)

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

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 73,048	\$ 67,957
Changes of assumptions	3,190,953	-
Net difference between projected and actual earnings on plan investments	-	522,289
Changes in proportion and differences between District contributions and proportionate share of contributions	292,274	12,126
District contributions subsequent to the measurement date*	1,262,314	-
Revenues in support of contributions subsequent to the measurement date	-	553,857
Total	<u>\$ 4,818,589</u>	<u>\$ 1,156,229</u>

Deferred inflows of resources of \$553,857 resulting from the pension portion of State Aid payments received pursuant to the UAAL payment will be recognized as state appropriations revenue for the year ending June 30, 2021.

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 Ending June 30	Amount:
2020	\$ 1,195,177
2021	930,278
2022	594,062
2023	234,386
	<u>\$ 2,953,903</u>

*The contributions subsequent to the measurement date as a reduction of the net pension liability in the following year.

NOTE 12. MICHIGAN PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM (CONTINUED)

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

OPEB Liabilities - 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 date of September 30, 2018 and rolled-forward using generally accepted actuarial procedures. The District's proportion of the net OPEB liability was based on a projection of its long-term share of contributions to the OPEB plan relative to the projected contributions of all participating reporting units, actuarially determined.

**MPSERS (Plan) Non-university
employers**

	<u>September 30, 2019</u>	<u>September 30, 2018</u>
Total other postemployment benefits liability	\$ 13,925,860,688	\$ 13,932,170,264
Plan fiduciary net position	6,748,112,668	5,983,218,473
Net pension liability	7,177,748,020	7,948,951,791
Proportionate share	0.05015%	0.04954%
Net other postemployment benefits liability for the District	3,599,342	3,938,044

For the year ended June 30, 2020, the District recognized OPEB expense of \$211,095. At June 30, 2020, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 1,320,700
Changes of assumptions	779,905	-
Net difference between projected and actual earnings on OPEB plan investments	-	62,594
Changes in proportion and differences between District contributions and proportionate share of contributions	122,826	4,575
District contributions subsequent to the measurement date*	295,308	-
Total	<u>\$ 1,198,039</u>	<u>\$ 1,387,869</u>

NOTE 12. MICHIGAN PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM (CONTINUED)

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 Ending June 30	Amount:
2020	\$ (137,329)
2021	(137,329)
2022	(106,169)
2023	(66,261)
2024	(38,050)
	\$ (485,138)

*The contributions subsequent to the measurement date as a reduction of the net pension liability in the following year.

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

Summary of Actuarial Assumptions

Actuarial cost method	Entry Age, Normal
Wage inflation rate	3.00%
Investment rate of return - Pension	6.00 - 6.80%
Investment rate of return - OPEB	6.95%
Projected salary increases	2.75%, including wage inflation at 3.00%
Healthcare cost trend rate	7.5%, Year 1 graded to 3.0% Year 12
Cost-of-living pension adjustments	3% Annual Non-Compounded for MIP Members
Mortality:	
Retirees:	RP-2014 Male and Female Healthy Annuitant Mortality Tables, scaled by 82% for males and 78% for females and adjusted for mortality improvements using projection scale MP-2017 from 2006.
Active Members:	RP-2014 Male and Female Healthy Annuitant Mortality Tables, scaled by 100% and adjusted for mortality improvements using projection scale MP-2017 from 2006.
Disable Retirees:	RP-2014 Male and Female Healthy Annuitant Mortality Tables, scaled by 100% and adjusted for mortality improvements using projection scale MP-2017 from 2006.

NOTE 12. MICHIGAN PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM (CONTINUED)

Assumption changes as a result of an experience study for the periods from 2012 to 2017 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2014 valuation.

Experience study - The annual actuarial valuation report of the System used for these statements is dated September 30, 2018. Assumption changes as a result of an experience study for the periods 2012 through 2017 have been adopted by the System for use in the determination of the total pension and OPEB liability beginning with the September 30, 2017 valuation.

The long-term expected rate of return on pension and other postemployment benefit plan investments - The pension rate was 6.80% (MIP, Basic, and Pension Plus Plan) and 6.00% for Pension Plus 2 Plan, and the other postemployment benefit rate was 6.95%, net of investment and administrative expenses was determined using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension and 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.

Cost of living pension adjustments - 3.0% annual non-compounded for MIP members.

Healthcare cost trend rate for other postemployment benefit - 7.5% for year one and graded to 3.5% in year twelve.

Additional assumptions for other postemployment benefit only - applies to individuals hired before September 4, 2012:

Opt Out Assumption - 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 coverage 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.

NOTE 12. MICHIGAN PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM (CONTINUED)

The target asset allocation as September 30, 2019 and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long Term Expected Real Rate of Return*
Domestic Equity Pools	28.0%	5.7%
Private Equity Pools	18.0%	8.6%
International Equity Pools	16.0%	7.3%
Fixed Income Pools	10.5%	1.2%
Real Estate and Infrastructure Pools	10.0%	4.2%
Absolute Return Pools	15.5%	5.4%
Short-Term Investment Pools	2.0%	0.8%
TOTAL	100.0%	

*Long term rates of return are net of administrative expenses and 2.3% inflation

Rate of Return - For 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.

Pension Discount Rate - A single discount rate of 6.80% was used to measure the total pension liability (6.00% for the Pension Plus 2 Plan). This discount rate was based on the expected rate of return on pension plan investments of 6.80% (6.00% for the Pension Plus 2 Plan). The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that contributions from school districts will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the pension 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 plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

OPEB Discount Rate - A single 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 OPEB plan investments of 6.95%. The projection of cash flows used to determine this discount rate assumed that plan member contributions will be made at the current contribution rate and that school districts contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the 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 OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

NOTE 12. MICHIGAN PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM (CONCLUDED)

Sensitivity of the net pension liability to changes in the discount rate - The following presents the Reporting Unit's proportionate share of the net pension liability calculated using a single discount rate of 6.80% (6.00% for the Pension Plus 2 Plan), as well as what the Reporting Unit'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 than the current rate:

1% Decrease	Current Single Discount Rate Assumption	1% Increase
\$ 21,187,072	\$ 16,296,946	\$ 12,242,863

Sensitivity of the net OPEB liability to changes in the discount rate -The following presents the Reporting Unit's proportionate share of the net OPEB liability calculated using a single discount rate of 6.95%, as well as what the Reporting Unit'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 than the current rate:

1% Decrease	Current Discount Rate	1% Increase
\$ 4,415,134	\$ 3,599,342	\$ 3,914,303

Sensitivity to the net OPEB liability to changes in the healthcare cost trend rates - The following presents the Reporting Unit's proportionate share of the net other postemployment benefit liability calculated using the healthcare cost trend rate of 7.5% (decreasing to 3.5%), as well as what the Reporting Unit's proportionate share of the net other postemployment benefit liability would be if it were calculated using a healthcare cost trend rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
\$ 2,885,261	\$ 3,599,342	\$ 4,415,037

Pension and OPEB Plan Fiduciary Net Position - Detailed information about the pension and OPEB's fiduciary net position is available in the separately issued Michigan Public School Employees Retirement System 2019 Comprehensive Annual Financial Report.

Payable to the pension and OPEB plan - At year end the District is current on all required pension and other postemployment benefit plan payments. Amounts accrued at year end for accounting purposes are separately stated in the financial statements as a liability titled accrued retirement. These amounts represent current payments for June paid in July, accruals for summer pay primarily for teachers, and the contributions due from state revenue Section 147c restricted to fund the MPSERS Unfunded Actuarial Accrued Liability ("UAAL").

NOTE 13. TAX ABATEMENTS

The District receives reduced property tax revenues as a result of Industrial Facilities Tax exemptions granted by Berrien County. Industrial facility exemptions are intended to promote construction of new industrial facilities, or to rehabilitate historical facilities. For the year ended June 30, 2020, the District's property tax revenues were reduced by \$4,984 under this program.

NOTE 14. UPCOMING ACCOUNTING PRONOUNCEMENT

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

NOTE 15. ADOPTION OF NEW PRONOUNCEMENT

For the year ended June 30, 2020, the District implemented the following new pronouncement: GASB Statement No. 84, *Fiduciary Activities*.

Summary - GASB Statement No. 84, *Fiduciary Activities*, was issued by the GASB in January 2017 and is effective for the District's 2020 year end. The District has elected to early implement this statement. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement establishes criteria for identifying fiduciary activities for all state and local governments. The focus on the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. Districts with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position.

NOTE 15. ADOPTION OF NEW PRONOUNCEMENT (CONCLUDED)

The restatement of the beginning of the year fund balances and net position is as follows

	Fund Balances	
	Non-Major Student Activities Fund	Total Governmental Funds
Fund balances as of July 1, 2019, as previously stated	\$ -	\$ 4,626,737
Adoption of GASB Statement 84	87,773	87,773
Fund balances as of July 1, 2019, as restated	\$ 87,773	\$ 4,714,510

	Net Position	
	Governmental Activities	Custodial Funds
Fund balances as of July 1, 2019, as previously stated	\$ (5,531,885)	\$ 87,773
Adoption of GASB Statement 84	87,773	(87,773)
Fund balances as of July 1, 2019, as restated	\$ (5,444,112)	\$ -

NOTE 16. SUBSEQUENT EVENTS

The District has evaluated subsequent events through ~~September 28, 2020~~, the date the financial statements were available to be issued.

The global coronavirus pandemic of 2020 (“COVID-19”), has caused the financial picture for Michigan School Districts to see an unanticipated change. Currently, the duration and full effects of the outbreak are unknown, as the local and global picture continues to change frequently. In March 2020, public schools were closed for the remainder of the 2019-2020 school year and the State encountered a revenue shortfall resulting in a revenue reduction for Districts in the August 2020 state aid payment. Public Act 123 of 2020 provides Districts an approximate 12.32 per pupil and Public Act 146 of 2020 which provides Districts \$350 per pupil. These new revenue sources approved subsequent to June 30, 2020 will be recognized in the fiscal year ended June 30, 2021 in accordance with reporting criteria established by GASB. Additionally, the “Return to Learn” legislation passed subsequent to year end which modifies the per pupil foundation allowance calculation per pupil and allows flexibilities in the days and attendance requirements for Districts. Although the District cannot estimate the length or gravity of the impact of the COVID-19 outbreak at this time, if the pandemic continues, it may have an adverse effect on the District’s results of future operations, financial position, and liquidity in fiscal year 2020.

Subsequent to year end, the District levied 0.7494 mills for sinking fund purposes for school year 2020-2021.

**REQUIRED SUPPLEMENTARY
INFORMATION**

DRAFT

RIVER VALLEY SCHOOL DISTRICT

REQUIRED SUPPLEMENTARY SCHEDULE BUDGETARY COMPARISON SCHEDULE – GENERAL FUND FOR THE YEAR ENDED JUNE 30, 2020

	Original Budget	Final Amended Budget	Actual	Variance (Negative) Positive
Revenues				
Property taxes	\$ 8,050,897	\$ 8,007,586	\$ 8,023,914	\$ 16,328
Local sources	17,500	99,076	102,190	3,114
State sources	1,100,345	1,160,291	1,068,175	(92,116)
Federal sources	284,610	316,671	212,479	(104,192)
Athletic sources	22,000	19,692	20,292	600
Interdistrict sources	70,000	91,023	91,024	1
Earnings on investments	40,000	53,553	54,894	1,341
Total Revenues	\$ 9,585,352	\$ 9,747,892	\$ 9,572,968	\$ (174,924)
Expenditures				
Instruction:				
Elementary	\$ 1,915,904	\$ 1,861,286	\$ 1,857,010	\$ 4,276
High school	2,163,269	2,087,277	2,090,652	(3,375)
Preschool	105,509	91,375	91,142	233
Summer school	28,766	66,432	25,633	40,799
Special education	496,215	500,099	500,126	(27)
Compensatory education	252,855	296,356	273,529	22,827
Technical education	26,177	71,269	82,426	(11,157)
Pupil Services	582,995	645,463	642,493	2,970
Supporting services:				
Improvement of instruction	124,268	67,045	43,327	23,718
Media services/audiovisual	61,583	68,744	68,405	339
Homeless	5,080	525	-	525
Board of Education	76,900	73,642	65,208	8,434
Executive	303,908	303,595	298,332	5,263
Principal	752,806	728,551	724,934	3,617
Business	238,444	237,163	234,239	2,924
Operations	957,175	963,304	918,784	44,520
Pupil transportation	647,952	698,988	691,380	7,608
Personnel services	46,237	39,066	34,079	4,987
Information management services	412,509	472,445	443,183	29,262
Pupil accounting	21,048	19,479	19,469	10
Athletics	331,270	287,148	285,888	1,260
Total Expenditures	\$ 9,550,870	\$ 9,579,252	\$ 9,390,239	\$ 189,013
Excess of Revenues over Expenditures	\$ 34,482	\$ 168,640	\$ 182,729	\$ 14,089
Other Financing Sources (Uses)				
Operating transfers out	\$ (157,500)	\$ (155,500)	\$ (155,500)	\$ -
Total Other Financing Sources (Uses)	\$ (157,500)	\$ (155,500)	\$ (155,500)	\$ -
Net Change in Fund Balances	\$ (123,018)	\$ 13,140	\$ 27,229	\$ 14,089
Fund Balances - Beginning of year	2,822,116	2,822,116	2,822,116	-
Fund Balances - End of year	\$ 2,699,098	\$ 2,835,256	\$ 2,849,345	\$ 14,089

The Notes to Required Supplementary Information are an integral part of this statement.

RIVER VALLEY SCHOOL DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
MICHIGAN PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM
AMOUNTS WERE DETERMINED AS OF THE PLAN YEAR ENDED SEPTEMBER 30TH

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
District's proportion of net pension liability	0.04921%	0.04866%	0.04802%	0.04708%	0.04639%	0.04724%
District's proportionate share of net pension liability	\$ 16,296,946	\$ 14,629,385	\$ 12,444,034	\$ 11,745,953	\$ 11,329,644	\$ 10,404,697
District's covered-employee payroll	\$ 4,394,987	\$ 4,218,721	\$ 4,069,254	\$ 4,024,463	\$ 3,950,053	\$ 4,146,586
District's proportionate share of net pension liability as a percentage of its covered-employee payroll	370.81%	346.77%	305.81%	291.86%	286.82%	250.92%
Plan fiduciary net position as a percentage of total pension liability	60.08%	62.12%	63.96%	63.01%	62.92%	66.20%

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10 year trend is compiled, the District presents information for those years for which information is available.

The Notes to Required Supplementary Information are an integral part of this statement.

RIVER VALLEY SCHOOL DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE DISTRICT'S PENSION CONTRIBUTIONS
MICHIGAN PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM
AMOUNTS WERE DETERMINED AS OF THE YEAR ENDED JUNE 30TH

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Statutorily required contributions	\$ 1,324,767	\$ 1,325,141	\$ 1,254,227	\$ 1,057,195	\$ 1,074,217	\$ 846,986
Contributions in relation to statutorily required contributions	<u>1,324,767</u>	<u>1,325,141</u>	<u>1,254,227</u>	<u>1,057,195</u>	<u>1,074,217</u>	<u>846,986</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>				
District's covered-employee payroll	\$ 4,644,593	\$ 4,364,198	\$ 4,173,906	\$ 4,067,242	\$ 4,005,495	\$ 3,974,293
Contributions as a percentage of covered-employee payroll	28.52%	30.36%	30.05%	25.99%	26.82%	21.31%

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10 year trend is compiled, the District presents information for those years for which information is available.

The Notes to Required Supplementary Information are an integral part of this statement.

RIVER VALLEY SCHOOL DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY
MICHIGAN PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM
AMOUNTS WERE DETERMINED AS OF THE PLAN YEAR ENDED SEPTEMBER 30TH

	<u>2019</u>	<u>2018</u>	<u>2017</u>
District's proportion of net OPEB liability	0.05015%	0.04954%	0.04822%
District's proportionate share of net OPEB liability	\$ 3,599,342	\$ 3,938,044	\$ 4,269,764
District's covered-employee payroll	\$ 4,394,987	\$ 4,218,721	\$ 4,269,764
District's proportionate share of net OPEB liability as a percentage of its covered-employee payroll	81.90%	93.35%	104.93%
Plan fiduciary net position as a percentage of total OPEB liability	48.67%	43.10%	36.53%

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10 year trend is compiled, the District presents information for those years for which information is available.

RIVER VALLEY SCHOOL DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE DISTRICT'S OPEB CONTRIBUTIONS
MICHIGAN PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM
AMOUNTS WERE DETERMINED AS OF THE YEAR ENDED JUNE 30TH

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Statutorily required contributions	\$ 321,340	\$ 321,573	\$ 299,343
Contributions in relation to statutorily required contributions	<u>321,340</u>	<u>321,573</u>	<u>299,343</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	\$ 4,644,593	\$ 4,364,198	\$ 4,173,906
Contributions as a percentage of covered-employee payroll	6.92%	7.37%	7.17%

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10 year trend is compiled, the District presents information for those years for which information is available.

The Notes to Required Supplementary Information are an integral part of this statement.

Change of pension benefit terms:

There were no changes of benefit terms for the plan year ended September 30, 2019.

Change of pension assumptions:

Discount rate for MIP and Basic plans decreased to 6.80% from 7.05%.

Discount rate for Pension Plus decreased to 6.80% from 7.00%.

Change of OPEB benefit terms:

There were no changes of benefit terms for the plan year ended September 30, 2019.

Change of OPEB assumptions:

Discount rate for decreased to 6.95% from 7.15%.

Healthcare cost trend rate increased to 7.50% Year 1 graded to 3.50% Year 12 from 7.50% Year 1 graded to 3.00% Year 12.

Stewardship, Compliance, and Accountability

Excess of Expenditures over Appropriations in Budgeted Funds – See previous Budgetary Comparison Schedule for budget variances as they apply to the District.

**OTHER SUPPLEMENTARY
INFORMATION**

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RIVER VALLEY SCHOOL DISTRICT

COMBINING BALANCE SHEET –
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2020

	<u>Special Revenue Funds</u>		<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Total Non-major Governmental Funds</u>
	<u>Food Service Fund</u>	<u>Student Activity Fund</u>	<u>2012 Debt Service Fund</u>	<u>Sinking Fund</u>	
Assets					
Cash and investments	\$ 63,822	\$ 92,431	\$ 1,273	\$ 167,540	\$ 325,066
Due from other governmental units	329	-	-	-	329
Due from other governmental funds	109,578	-	-	12,953	122,531
Inventories	14,493	-	-	-	14,493
Total Assets	\$ 188,222	\$ 92,431	\$ 1,273	\$ 180,493	\$ 462,419
Liabilities and Fund Balances					
Liabilities					
Accounts payable	\$ 1,668	\$ -	\$ -	\$ 86,299	\$ 87,967
Accrued payroll and withholdings	8,759	-	-	-	8,759
Due to other governmental funds	66,203	-	-	-	66,203
Total Liabilities	\$ 76,630	\$ -	\$ -	\$ 86,299	\$ 162,929
Fund Balances					
Non-spendable:					
Used for inventories	\$ 14,493	\$ -	\$ -	\$ -	\$ 14,493
Restricted:					
Sinking Fund	-	-	-	94,194	94,194
Student activity	-	92,431	-	-	92,431
Food service	97,099	-	-	-	97,099
Debt service	-	-	1,273	-	1,273
Total Fund Balances	\$ 111,592	\$ 92,431	\$ 1,273	\$ 94,194	\$ 299,490
Total Liabilities and Fund Balances	\$ 188,222	\$ 92,431	\$ 1,273	\$ 180,493	\$ 462,419

RIVER VALLEY SCHOOL DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES – NONMAJOR GOVERNMENTAL FUNDS YEAR ENDED JUNE 30, 2020

	Special Revenue Funds		Debt Service Fund	Capital Projects Fund	Total Non-major Governmental Funds
	Food Service Fund	Student Activity Fund	2012 Debt Service Fund	Sinking Fund	
Revenues					
Property taxes	\$ -	\$ -	\$ -	\$ 392,008	\$ 392,008
Local sources	60,956	93,899	-	-	154,855
State sources	14,174	-	-	-	14,174
Federal sources	369,017	-	41,278	-	410,295
Earnings on investments	77	-	38	2,350	2,465
Total Revenues	\$ 444,224	\$ 93,899	\$ 41,316	\$ 394,358	\$ 973,797
Expenditures					
Food service	\$ 376,824	\$ -	\$ -	\$ -	\$ 376,824
Student activities	-	89,241	-	-	89,241
Capital outlay	-	-	-	564,787	564,787
Debt service					
Principal	-	-	133,000	-	133,000
Interest	-	-	43,936	-	43,936
Total Expenditures	\$ 376,824	\$ 89,241	\$ 176,936	\$ 564,787	\$ 1,207,788
(Excess) Deficiency of Revenues over (under) Expenditures	\$ 67,400	\$ 4,658	\$ (135,620)	\$ (170,429)	\$ (233,991)
Other Financing Sources (Uses)					
Operating transfers in	\$ 20,000	\$ -	\$ 135,500	\$ -	\$ 155,500
Total Other Financing Sources (Uses)	\$ 20,000	\$ -	\$ 135,500	\$ -	\$ 155,500
Net Change in Fund Balances	\$ 87,400	\$ 4,658	\$ (120)	\$ (170,429)	\$ (78,491)
Fund Balances - Beginning of year, as restated (Note 15)	24,192	87,773	1,393	264,623	377,981
Fund Balances - End of year	\$ 111,592	\$ 92,431	\$ 1,273	\$ 94,194	\$ 299,490

**MANAGEMENT COMPLIANCE
LETTER**

DRAFT

**Independent Auditor’s 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***

To the Board of Education of
River Valley School District
Three Oaks, Michigan

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of River Valley School District as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise River Valley School District’s basic financial statements and have issued our report thereon dated ~~September 28, 2020~~.

Internal Control over Financial Reporting

In planning and performing our audit, we considered River Valley School District’s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of River Valley School District’s internal control. Accordingly, we do not express an opinion on the effectiveness of River Valley School District’s internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the 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 and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitations during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

**Independent Auditor's 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***

Purpose of this Report

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

Respectfully submitted,

Certified Public Accountants

St. Joseph, Michigan
September 28, 2020

SECTION I - STATUS OF PRIOR YEAR FINANCIAL STATEMENT FINDINGS

No findings for the fiscal year ending June 30, 2019.

SECTION II – FINANCIAL STATEMENT FINDINGS

No findings for the fiscal year ending June 30, 2020.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

The District has spent under the \$750,000 threshold for federal expenditures and is not required to have a Single Audit under the Uniform Guidance.

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