

Mount Clemens Community School
District

Year Ended
June 30, 2020

Financial
Statements &
Single Audit Act
Compliance

Rehmann

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MOUNT CLEMENS COMMUNITY SCHOOL DISTRICT

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INDEPENDENT AUDITORS' REPORT

October 16, 2020

Board of Education
Mount Clemens Community School District
Mount Clemens, 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 *Mount Clemens Community 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.

Independent Auditors' Responsibility

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

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

Rehmann is an independent member of Nexia International.



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 Mount Clemens Community School District as of June 30, 2020, and the respective changes in financial position thereof and the respective budgetary comparison for the general fund and food service fund, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated October 16, 2020, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the District's internal control over financial reporting and compliance.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

MOUNT CLEMENS COMMUNITY SCHOOL DISTRICT

Management's Discussion and Analysis

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

Financial Highlights

• Total net position (deficit)	\$ (37,100,759)
• Change in total net position	652,544
• Fund balances, governmental funds	828,216
• Change in fund balances, governmental funds	(627,188)
• Unassigned fund balance, general fund	162,752
• Change in fund balance, general fund	(563,865)
• Installment debt outstanding	47,660,000
• Change in installment debt	(2,490,000)

Overview of the Financial Statements

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

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

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

Government-wide Financial Statements

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

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

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

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

MOUNT CLEMENS COMMUNITY SCHOOL DISTRICT

Management's Discussion and Analysis

Fund Financial Statements

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

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

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

The District maintains three major governmental funds - the general fund, the food service special revenue fund, and the debt service fund. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of fund revenues, expenditures, and changes in fund balances for each fund.

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

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

Notes to the Financial Statements

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

Other Information

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

MOUNT CLEMENS COMMUNITY SCHOOL DISTRICT

Management's Discussion and Analysis

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, liabilities and deferred inflows of resources exceeded assets and deferred outflows of resources by \$37,100,759 at the close of the most recent fiscal year.

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

	Governmental Activities	
	2020	2019
Assets		
Current and other assets	\$ 3,241,063	\$ 3,330,659
Capital assets, net	38,360,493	39,965,259
Total assets	<u>41,601,556</u>	<u>43,295,918</u>
Deferred outflows of resources	<u>8,175,585</u>	<u>8,281,323</u>
Liabilities		
Other liabilities	27,011,162	25,021,121
Long-term liabilities	57,180,207	61,199,598
Total liabilities	<u>84,191,369</u>	<u>86,220,719</u>
Deferred inflows of resources	<u>2,686,531</u>	<u>3,109,825</u>
Net position		
Net investment in capital assets	8,423,156	6,504,677
Restricted	260,747	303,741
Unrestricted (deficit)	(45,784,662)	(44,561,721)
Total net position	<u>\$ (37,100,759)</u>	<u>\$ (37,753,303)</u>

MOUNT CLEMENS COMMUNITY SCHOOL DISTRICT

Management's Discussion and Analysis

The District had negative net position of \$37,100,759 at June 30, 2020. The District had net investment in capital assets of \$8,423,156, which compares the original cost, less accumulated depreciation of the District's capital assets, plus any unspent bond proceeds to the long-term debt used to finance the acquisition of those assets, and reduced for long-term indebtedness used to finance the related capital assets. Most of the debt will be repaid from voter-approved property taxes collected as the debt service comes due. In addition, net position of \$260,747 is restricted. The remaining balance is unrestricted net position, which has a negative balance mainly due to the recording of the District's portion of the Michigan Public School Employees Retirement System (MPSERS) net pension and other postemployment benefit liabilities in accordance with GASB 68 and 75.

The negative net position of \$37,100,759 of governmental activities represents the accumulated results of all past years' operations. The operating results of the general fund will have a significant impact on the change in unrestricted net position from year to year, as will changes to the net pension and other postemployment benefit liabilities.

The results of this year's operations for the District as a whole are reported in the statement of activities. Below is a summary of the District's changes in net position for the years ended June 30, 2020 and 2019.

District's Changes in Net Position

	Governmental Activities	
	2020	2019
Revenues		
Program revenues:		
Charges for services	\$ 344,178	\$ 377,285
Operating grants and contributions	6,615,241	6,717,938
General revenues:		
Property taxes	9,681,105	9,270,061
Unrestricted state aid	3,793,440	4,489,665
Other	141,672	192,778
Total revenues	<u>20,575,636</u>	<u>21,047,727</u>
Expenses		
Instruction	7,772,876	7,327,513
Support services	6,804,100	5,966,445
Community services	198,086	208,275
Food services	913,694	1,047,903
Athletics	60,995	75,192
Interest on long-term liabilities	2,130,660	2,075,818
Unallocated depreciation	2,042,681	2,065,890
Total expenses	<u>19,923,092</u>	<u>18,767,036</u>
Change in net position	652,544	2,280,691
Net position, beginning of year	<u>(37,753,303)</u>	<u>(40,033,994)</u>
Net position, end of year	<u>\$ (37,100,759)</u>	<u>\$ (37,753,303)</u>

MOUNT CLEMENS COMMUNITY SCHOOL DISTRICT

Management's Discussion and Analysis

The District experienced an increase in net position of \$652,544. The primary reason for the change in net position is changes in long term debt related to refinancing on bonds.

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

The District's Funds

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

As the District completed 2020, the governmental funds reported a combined fund balance of \$828,216, which is a decrease of \$627,188 in comparison with the prior year. The primary reasons for the change are as follows:

In the general fund, our principal operating fund, the fund balance decreased \$563,865 to a balance of \$259,864. This change is compared to the increase of \$951,901 in the prior year. The decrease to fund balance was primarily caused by decreased state aid revenue and increased expenditures caused by emergency capital outlay expenditures.

The food service special revenue fund reported a decrease to fund balance of \$112,583, resulting in an ending fund balance of \$106,984.

The debt service fund shows a fund balance increase of \$49,260 (from \$412,108 to \$461,368). The millage rate is 11.8 mills (funding a combined debt service fund for both the 2015 and 2017 refunding bonds). The millage rate is determined annually to ensure that the District accumulates sufficient resources to pay annual bond issue-related debt service. Debt service funds fund balances are restricted since they can only be used to pay debt service obligations.

General Fund Budgetary Highlights

Over the course of the year, the District revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. A single adjustment to the 2019-2020 budget was adopted on June 17, 2020. The significant changes between the original adopted budget and the final amended budget were decreased revenue of approximately \$445,000 based on information available at the time, which were driven by the Student Aid Fund projected deficit due to the COVID-19 global pandemic. In addition, there was an increase in expenditures of approximately \$166,000 in the support services area of the budget, primarily in operations and maintenance.

The general fund actual revenue and other financing sources was \$13,882,782. That amount is more than the final budget estimate of \$13,565,529. The variance was \$317,253, or 2.3%.

The actual expenditures of the general fund were \$14,446,647, which is above the final budget estimate of \$13,622,416. The variance was \$824,234, or 6.1%. The variance was due to increased expenses caused by unanticipated infrastructure needs as well as increased operational expenses caused by COVID-19.

MOUNT CLEMENS COMMUNITY SCHOOL DISTRICT

Management's Discussion and Analysis

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2020, the District had \$38,360,493 invested in a broad range of capital assets, including land, buildings and improvements, site improvements, equipment and furniture and buses and other vehicles. Additional information on the District's capital assets can be found in the notes to the financial statements.

	District's Capital Assets (Net of Depreciation)	
	2020	2019
Land	\$ 680,575	\$ 680,575
Construction in progress	437,915	-
Buildings and improvements	35,074,979	36,778,205
Site improvements	1,837,907	2,101,550
Furniture and equipment	299,650	369,345
Buses and other vehicles	29,467	35,584
	<u> </u>	<u> </u>
Total capital assets, net	<u>\$ 38,360,493</u>	<u>\$ 39,965,259</u>

Debt

At the end of this 2020 fiscal year, the District had \$47,660,000 in bonds outstanding versus \$50,150,000 in the previous year. The District also had a school bond loan fund, capital lease, and compensated absences. A summary of the District's debt is as follows:

	Long-term Debt	
	2020	2019
General obligation bonds	\$ 47,660,000	\$ 50,150,000
Net bond premium/discount	1,867,202	2,367,771
School bond loan fund	7,642,925	8,645,643
Capital lease	-	26,374
Compensated absences	10,080	9,810
	<u> </u>	<u> </u>
Total	<u>\$ 57,180,207</u>	<u>\$ 61,199,598</u>

MOUNT CLEMENS COMMUNITY SCHOOL DISTRICT

Management's Discussion and Analysis

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

Factors Bearing on the District's Future

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

- The foundation allowance was projected to decrease according to State guidance due to COVID-19
- Anticipated student enrollment of 1,000 students.
- An increase of 10% in health insurance costs.
- Realized increases of MCEA salaries according to ratified collective bargaining agreement.
- Reduction of expenditures primarily in staffing and operations and maintenance.

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

Requests for Information

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Business Services, 155 Cass Avenue, Mount Clemens, Michigan 48043.

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

MOUNT CLEMENS COMMUNITY SCHOOL DISTRICT

Statement of Net Position

June 30, 2020

	Governmental Activities
Assets	
Cash and cash equivalents	\$ 1,866,777
Receivables	1,272,447
Prepays and other assets	101,839
Capital assets, not being depreciated	1,118,490
Capital assets being depreciated, net	37,242,003
Total assets	41,601,556
Deferred outflows of resources	
Deferred charge on refunding	1,064,865
Deferred pension amounts	5,773,766
Deferred other postemployment benefit amounts	1,336,954
Total deferred outflows of resources	8,175,585
Liabilities	
Accounts payable and accrued liabilities	2,159,433
Short-term notes payable	200,285
Unearned revenue	360,734
Long-term liabilities:	
Due within one year	12,074,064
Due in more than one year	45,106,143
Net pension liability (due in more than one year)	19,977,337
Net other postemployment benefit liability (due in more than one year)	4,313,373
Total liabilities	84,191,369
Deferred inflows of resources	
Deferred pension amounts	995,054
Deferred other postemployment benefit amounts	1,691,477
Total deferred inflows of resources	2,686,531
Net position	
Net investment in capital assets	8,423,156
Restricted for:	
Food service	106,984
Debt service	153,763
Unrestricted (deficit)	(45,784,662)
Total net position	\$ (37,100,759)

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

MOUNT CLEMENS COMMUNITY SCHOOL DISTRICT

Statement of Activities

For the Year Ended June 30, 2020

Functions / Programs	Expenses	Program Revenues		Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	
Governmental activities				
Instruction	\$ 7,772,876	\$ 1,340	\$ 5,850,737	\$ (1,920,799)
Support services	6,804,100	275,914	-	(6,528,186)
Community services	198,086	-	-	(198,086)
Food services	913,694	61,539	764,504	(87,651)
Athletics	60,995	5,385	-	(55,610)
Interest on long-term liabilities	2,130,660	-	-	(2,130,660)
Unallocated depreciation	2,042,681	-	-	(2,042,681)
Total	<u>\$ 19,923,092</u>	<u>\$ 344,178</u>	<u>\$ 6,615,241</u>	<u>(12,963,673)</u>
General revenues				
Taxes:				
Property taxes, levied for general purposes				4,053,587
Property taxes, levied for debt services				5,627,518
Unrestricted state aid				3,793,440
Grants and contributions not restricted to specific programs				110,638
Unrestricted investment earnings				<u>31,034</u>
Total general revenues				<u>13,616,217</u>
Change in net position				652,544
Net position, beginning of year				<u>(37,753,303)</u>
Net position, end of year				<u><u>\$ (37,100,759)</u></u>

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

FUND FINANCIAL STATEMENTS

MOUNT CLEMENS COMMUNITY SCHOOL DISTRICT

Balance Sheet

Governmental Funds

June 30, 2020

	General	Food Service Special Revenue	Debt Service	Total Governmental Funds
Assets				
Cash and cash equivalents	\$ 1,306,911	\$ 98,498	\$ 461,368	\$ 1,866,777
Accounts receivable	523,598	-	-	523,598
Due from other governments	727,869	20,980	-	748,849
Due from other funds	-	15,652	-	15,652
Inventories	-	4,727	-	4,727
Prepaid items	97,112	-	-	97,112
Total assets	\$ 2,655,490	\$ 139,857	\$ 461,368	\$ 3,256,715
Liabilities				
Accounts payable	\$ 600,792	\$ 32,873	\$ -	\$ 633,665
Accrued payroll and other liabilities	1,098,071	-	-	1,098,071
Due to other governments	120,092	-	-	120,092
Due to other funds	15,652	-	-	15,652
Short-term notes payable	200,285	-	-	200,285
Unearned revenue	360,734	-	-	360,734
Total liabilities	2,395,626	32,873	-	2,428,499
Fund balances				
Nonspendable for inventories	-	4,727	-	4,727
Nonspendable for prepaid items	97,112	-	-	97,112
Restricted for debt service	-	-	461,368	461,368
Restricted for food service	-	102,257	-	102,257
Unassigned	162,752	-	-	162,752
Total fund balances	259,864	106,984	461,368	828,216
Total liabilities and fund balances	\$ 2,655,490	\$ 139,857	\$ 461,368	\$ 3,256,715

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

MOUNT CLEMENS COMMUNITY SCHOOL DISTRICT

Reconciliation

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

Fund balances - total governmental funds	\$ 828,216
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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 therefore are not reported in the funds.

Capital assets not being depreciated	1,118,490
Capital assets being depreciated	78,143,339
Accumulated depreciation	(40,901,336)

Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

Bonds payable, capital lease and school bond loan fund	(55,302,925)
Unamortized premium	(1,867,202)
Deferred charge on refunding	1,064,865
Accrued interest on bonds payable	(307,605)
Compensated absences	(10,080)

Certain pension and other postemployment benefit-related amounts, such as the net pension liability, net other postemployment benefit liability and deferred amounts are not due and payable in the current period or do not represent current financial resources and therefore are not reported in the funds.

Net pension liability	(19,977,337)
Net other postemployment benefit liability	(4,313,373)
Deferred outflows related to the net pension liability	5,773,766
Deferred inflows related to the net pension liability	(995,054)
Deferred outflows related to the net other postemployment benefit liability	1,336,954
Deferred inflows related to the net other postemployment benefit liability	(1,691,477)

Net position of governmental activities	<u>\$ (37,100,759)</u>
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The accompanying notes are an integral part of these basic financial statements.

MOUNT CLEMENS COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Funds

For the Year Ended June 30, 2020

	General	Food Service Special Revenue	Debt Service	Total Governmental Funds
Revenues				
Local sources	\$ 4,477,898	\$ 61,539	\$ 5,627,518	\$ 10,166,955
State sources	6,655,753	44,473	264,225	6,964,451
Federal sources	1,863,961	720,031	-	2,583,992
Interdistrict sources	860,238	-	-	860,238
Total revenues	13,857,850	826,043	5,891,743	20,575,636
Expenditures				
Current:				
Instruction	7,169,848	-	-	7,169,848
Support services	6,552,973	-	-	6,552,973
Community services	198,086	-	-	198,086
Food services	-	913,694	-	913,694
Athletics	60,995	-	-	60,995
Debt service:				
Principal	26,374	-	20,145,000	20,171,374
Interest and fiscal charges	456	-	2,062,264	2,062,720
Issuance costs	-	-	115,000	115,000
Capital outlay	437,915	-	-	437,915
Total expenditures	14,446,647	913,694	22,322,264	37,682,605
Revenues under expenditures	(588,797)	(87,651)	(16,430,521)	(17,106,969)
Other financing sources (uses)				
Issuance of long-term debt	-	-	16,479,781	16,479,781
Transfers in	24,932	-	-	24,932
Transfers out	-	(24,932)	-	(24,932)
Total other financing sources (uses)	24,932	(24,932)	16,479,781	16,479,781
Net change in fund balances	(563,865)	(112,583)	49,260	(627,188)
Fund balances, beginning of year	823,729	219,567	412,108	1,455,404
Fund balances, end of year	\$ 259,864	\$ 106,984	\$ 461,368	\$ 828,216

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

MOUNT CLEMENS COMMUNITY SCHOOL DISTRICT

Reconciliation

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

Net change in fund balances - total governmental funds	\$ (627,188)
--	--------------

Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital assets purchased/constructed	437,915
Depreciation expense	(2,042,681)

Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increases long-term liabilities in the statement of net position. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces liabilities in the statement of net position.

Principal payments on long-term liabilities	20,171,374
Issuance of long-term debt	(16,479,781)
Amortization of bond premiums	500,569
Amortization of deferred charge on refunding	(301,337)

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

Change in net pension liability and related deferred amounts	(1,199,733)
Change in net other postemployment benefit liability and related deferred amounts	345,848
Change in accrued interest payable on bonds	(152,172)
Change in the accrual for compensated absences	(270)

Change in net position of governmental activities	<u>\$ 652,544</u>
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The accompanying notes are an integral part of these basic financial statements.

MOUNT CLEMENS COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balance

Budget and Actual - General Fund

For the Year Ended June 30, 2020

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues				
Local source	\$ 3,874,339	\$ 3,874,339	\$ 4,477,898	\$ 603,559
State sources	6,914,531	6,591,245	6,655,753	64,508
Federal sources	2,087,659	2,047,659	1,863,961	(183,698)
Interdistrict sources	1,039,000	957,286	860,238	(97,048)
Total revenues	13,915,529	13,470,529	13,857,850	387,321
Expenditures				
Instruction:				
Basic programs	3,873,413	3,898,333	4,170,201	271,868
Added needs	3,345,845	3,190,925	2,999,647	(191,278)
Total instruction	7,219,258	7,089,258	7,169,848	80,590
Support services:				
Pupil	1,300,473	1,300,473	1,180,629	(119,844)
Instructional staff	854,645	854,645	947,751	93,106
General administration	290,305	325,305	428,771	103,466
School administration	533,737	533,737	461,102	(72,635)
Business	404,380	459,380	474,173	14,793
Operations and maintenance	1,374,167	1,634,167	1,926,024	291,857
Pupil transportation services	668,524	595,000	603,885	8,885
Central services	440,948	460,948	530,638	69,690
Total support services	5,867,179	6,163,655	6,552,973	389,318
Community services	255,248	255,248	198,086	(57,162)
Athletics	83,255	83,255	60,995	(22,260)
Debt service:				
Principal	25,000	25,000	26,374	1,374
Interest and fiscal charges	6,000	6,000	456	(5,544)
Total debt service	31,000	31,000	26,830	(4,170)
Capital outlay	-	-	437,915	437,915
Total expenditures	13,455,940	13,622,416	14,446,647	824,231

continued...

MOUNT CLEMENS COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balance

Budget and Actual - General Fund

For the Year Ended June 30, 2020

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues over (under) expenditures	\$ 459,589	\$ (151,887)	\$ (588,797)	\$ (436,910)
Other financing sources				
Transfers in	95,000	95,000	24,932	(70,068)
Net change in fund balance	554,589	(56,887)	(563,865)	(506,978)
Fund balance, beginning of year	823,729	823,729	823,729	-
Fund balance, end of year	<u>\$ 1,378,318</u>	<u>\$ 766,842</u>	<u>\$ 259,864</u>	<u>\$ (506,978)</u>

concluded.

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

MOUNT CLEMENS COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balance

Budget and Actual - Food Service

For the Year Ended June 30, 2020

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues				
Local source	\$ 25,000	\$ 61,470	\$ 61,539	\$ 69
State sources	34,000	34,000	44,473	10,473
Federal sources	695,000	660,000	720,031	60,031
Total revenues	754,000	755,470	826,043	70,573
Expenditures				
Food service	927,500	882,000	913,694	31,694
Revenues over (under) expenditures	(173,500)	(126,530)	(87,651)	38,879
Other financing uses				
Transfers out	-	-	(24,932)	24,932
Net change in fund balance	(173,500)	(126,530)	(112,583)	13,947
Fund balance, beginning of year	219,567	219,567	219,567	-
Fund balance, end of year	\$ 46,067	\$ 93,037	\$ 106,984	\$ 13,947

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

MOUNT CLEMENS COMMUNITY SCHOOL DISTRICT

Statement of Fiduciary Net Position

June 30, 2020

	Private- Purpose Trust	Student Activities Agency Fund
Assets		
Cash and cash equivalents	\$ 174,193	\$ 88,148
Investments	174,807	-
Total assets	349,000	\$ 88,148
Liabilities		
Due to student groups	-	\$ 88,148
Net position		
Restricted for scholarships	\$ 349,000	

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

MOUNT CLEMENS COMMUNITY SCHOOL DISTRICT

Statement of Changes in Fiduciary Net Position

For the Year Ended June 30, 2020

	Private- Purpose Trust
Additions	
Investment earnings	\$ 5,216
Private contributions	<u>28,715</u>
Total additions	33,931
Deductions	
Scholarships	<u>3,816</u>
Change in net position	30,115
Net position, beginning of year	<u>318,885</u>
Net position, end of year	<u><u>\$ 349,000</u></u>

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

NOTES TO THE FINANCIAL STATEMENTS

MOUNT CLEMENS COMMUNITY SCHOOL DISTRICT

Notes to the Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting entity

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

Government-wide and fund financial statements

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

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

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

Measurement focus, basis of accounting, and financial statement presentation

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

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

MOUNT CLEMENS COMMUNITY SCHOOL DISTRICT

Notes to the Financial Statements

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

The District reports the following major governmental funds:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those accounted for and reported in another fund.

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

The *food service special revenue fund* is used to account and report the activities of the food service programs of the District.

Additionally, the District reports the following fund types:

The *private-purpose trust funds* account for contributions earmarked for scholarships available to qualifying students of the District.

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

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

Assets, deferred outflows of resources, liabilities, deferred inflows of resources and equity

Deposits and investments

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

The District's investments in the Michigan Liquid Assets Fund (MILAF) are recorded at amortized cost. All other investments are recorded at fair value.

MOUNT CLEMENS COMMUNITY SCHOOL DISTRICT

Notes to the Financial Statements

Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to/from other funds” (i.e., the current portion of interfund loans) or “advances to/from other funds” (i.e., the non-current portion of interfund loans).

The District follows the practice of recording revenues that have been earned but not yet received as receivables. Receivables consist primarily of State Aid payments from the State of Michigan and Federal grant funds earned but not yet collected. No amounts have been identified as potentially uncollectible by management, and therefore, no amount has been recorded as a provision for bad debts.

Accounts payable and other payables reflected in the financial statements are based on when the liability is incurred.

Inventories and prepaid items

All inventories are valued at cost using the first-in/first out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Capital assets

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

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Capital assets of the primary government are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Buildings and improvements	20-50
Site improvements	20-25
Equipment and furniture	5-20
Buses and other vehicles	5-10

MOUNT CLEMENS COMMUNITY SCHOOL DISTRICT

Notes to the Financial Statements

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 reports deferred outflows for the charge on refunding. This amount represents the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The District also reports deferred outflows of resources related to the net pension liability and the net other postemployment benefit liability. A portion of these costs represent contributions to the plan subsequent to the plan measurement date.

Compensated absences

The liability for compensated absences reported in the government-wide statements consists of earned by unused accrued vacation. A liability for these amounts is reported in governmental funds as it comes due for payment. The liability has been calculated using the vesting method, with 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.

Benefits are accrued based on various contract stipulations and lengths of service for the various bargaining units.

Deferred inflows of resources

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to one or more future periods and so will not be recognized as an inflow of resources (revenue) until that time. The District's deferred inflows of resources are related to pension and other postemployment benefit liabilities.

Long-term obligations

In the government-wide financial statements, long-term obligations are reported as liabilities in the governmental activities statement of net position. Where applicable, bond premiums and discounts, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed during 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. The face amount of debt issued is reported as other financing sources. Premiums received in debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual proceeds received, are reported as debt service expenditures.

MOUNT CLEMENS COMMUNITY SCHOOL DISTRICT

Notes to the Financial Statements

Fund equity

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

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

Pensions and Other Postemployment Benefits

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

2. BUDGETARY INFORMATION

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

MOUNT CLEMENS COMMUNITY SCHOOL DISTRICT

Notes to the Financial Statements

3. ACCOUNTABILITY AND COMPLIANCE

Excess of Expenditures Over Appropriations

During the year ended June 30, 2020, the government incurred expenditures in excess of the amounts appropriated at the legal level of budgetary control as follows:

	Final Budget	Actual	Variance
General fund			
Instruction:			
Basic programs	\$ 3,898,333	\$ 4,170,201	\$ 271,868
Support services:			
Instructional staff	854,645	947,751	93,106
General administration	325,305	428,771	103,466
Business	459,380	474,173	14,793
Operations and maintenance	1,634,167	1,926,024	291,857
Pupil transportation services	595,000	603,885	8,885
Central services	460,948	530,638	69,690
Debt service:			
Principal	25,000	26,374	1,374
Capital outlay	-	437,915	437,915
Food service			
Food service	882,000	913,694	31,694
Transfers out	-	24,932	24,932

4. DEPOSITS AND INVESTMENTS

Deposits and investments

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

Statement of Net Position	
Cash and cash equivalents	\$ 1,866,777
Statement of Fiduciary Net Position	
Private-purpose trusts:	
Cash and cash equivalents	174,193
Investments	174,807
Agency fund:	
Cash and cash equivalents	88,148
Total	<u>\$ 2,303,925</u>

MOUNT CLEMENS COMMUNITY SCHOOL DISTRICT

Notes to the Financial Statements

These balances are categorized for note disclosures as follows:

Bank deposits (checking accounts, savings accounts and CDs)	\$ 1,185,118
Investments:	
MILAF investment funds	942,900
Equity mutual fund	158,538
Common stock	16,269
Cash on hand	<u>1,100</u>
	<u>\$ 2,303,925</u>

Statutory Authority

Michigan law authorizes the District to deposit and invest in:

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

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

Deposit and Investment Risk

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified in the list of authorized investments above. The District's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The District's investments are not exposed to interest rate risk.

MOUNT CLEMENS COMMUNITY SCHOOL DISTRICT

Notes to the Financial Statements

Credit Risk. State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in the list of authorized investments above. The District's investment policy does not have specific limits in excess of state law on investment credit risk.

As of June 30, 2020, the District's investments in MILAF were rated AAAM by Standard & Poors.

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned. State law does not require and the District does not have a policy for deposit custodial credit risk. As of year end, \$1,159,149 of the District's bank balance of \$1,409,149 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial Credit Risk - Investments. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the District does not have a policy for investment custodial credit risk. The District's investments in MILAF are not exposed to custodial credit risk since the securities are held by a counterparty in the name of the District. Investments in mutual funds are not exposed to custodial credit risk because their existence is not evidenced by securities that exist in physical or book form.

Concentration of Credit Risk. State law limits allowable investments but does not limit concentration of credit risk as identified in the list of authorized investments above. The District's investment policy does not have specific limits in excess of state law on concentration of credit risk.

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.

The District's recurring fair value measurements as of June 30, 2020 are related to its investments in equity mutual funds and common stock holdings. The investments in equity mutual funds are valued using significant other observable inputs (Level 2 inputs) and the investment in common stock are valued based on quoted stock price (Level 1 Inputs).

5. RECEIVABLES

Receivables as of June 30, 2020 for the District's individual major funds are as follows:

	General Fund	Food Service	Total
Receivables			
Accounts	\$ 523,598	\$ -	\$ 523,598
Due from other governments	727,869	20,980	748,849
Total	<u>\$ 1,251,467</u>	<u>\$ 20,980</u>	<u>\$ 1,272,447</u>

MOUNT CLEMENS COMMUNITY SCHOOL DISTRICT

Notes to the Financial Statements

6. CAPITAL ASSETS

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

	Beginning Balance	Additions	Disposals	Ending Balance
Governmental activities				
Capital assets not being depreciated:				
Land	\$ 680,575	\$ -	\$ -	\$ 680,575
Construction in progress	-	437,915	-	437,915
Total capital assets not being depreciated	680,575	437,915	-	1,118,490
Capital assets being depreciated:				
Buildings and improvements	70,233,402	-	-	70,233,402
Site improvements	5,357,407	-	-	5,357,407
Equipment and furniture	2,441,372	-	-	2,441,372
Buses and other vehicles	111,158	-	-	111,158
Total capital assets being depreciated	78,143,339	-	-	78,143,339
Less accumulated depreciation for:				
Buildings and improvements	(33,455,197)	(1,703,226)	-	(35,158,423)
Site improvements	(3,255,857)	(263,643)	-	(3,519,500)
Equipment and furniture	(2,072,027)	(69,695)	-	(2,141,722)
Buses and other vehicles	(75,574)	(6,117)	-	(81,691)
Total accumulated depreciation	(38,858,655)	(2,042,681)	-	(40,901,336)
Total capital assets being depreciated, net	39,284,684	(2,042,681)	-	37,242,003
Governmental activities capital assets, net	\$ 39,965,259	\$ (1,604,766)	\$ -	\$ 38,360,493

Depreciation expense of \$2,042,681 was charged to the function "unallocated depreciation".

Construction commitments

The District had a \$490,052 roofing project which began in June 2020. The remaining balance on open contracts as of June 30, 2020 was \$52,137.

MOUNT CLEMENS COMMUNITY SCHOOL DISTRICT

Notes to the Financial Statements

7. PAYABLES

Accounts payable and accrued liabilities as of June 30, 2020 for the District's individual major funds are as follows:

	General Fund	Food Service	Total
Fund Financial Statements			
Accounts payable	\$ 600,792	\$ 32,873	\$ 633,665
Accrued payroll and other liabilities	1,098,071	-	1,098,071
Due to other governments	120,092	-	120,092
	<u>\$ 1,818,955</u>	<u>\$ 32,873</u>	<u>1,851,828</u>
Government-wide Financial Statements			
Accrued interest on long-term debt			<u>307,605</u>
			<u>\$ 2,159,433</u>

8. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

At June 30, 2020, interfund receivables and payables in the fund financial statements consisted of the following:

	Due From Other Funds	Due To Other Funds
General fund	\$ -	\$ 15,652
Food service fund	15,652	-
	<u>\$ 15,652</u>	<u>\$ 15,652</u>

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

MOUNT CLEMENS COMMUNITY SCHOOL DISTRICT

Notes to the Financial Statements

For the year ending June 30, 2020, interfund transfers consisted entirely of a transfer of \$24,932 from the food service special revenue fund to the general fund.

Transfers are used to: (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; (2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due; and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. For the year ended June 30, 2020, the District transferred funds from the food service fund to the general fund to reimburse indirect costs.

9. LONG-TERM DEBT

The following is a summary of bond and other long-term obligation activity for the year ended June 30,

	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Governmental activities					
General obligation					
bonds	\$ 50,150,000	\$ 8,885,000	\$ (11,375,000)	\$ 47,660,000	\$ 11,750,000
Premium on bonds	2,367,771	-	(500,569)	1,867,202	323,539
School bond loan fund	8,645,643	7,767,282	(8,770,000)	7,642,925	-
Capital lease	26,374	-	(26,374)	-	-
Compensated absences	9,810	270	-	10,080	525
	<u>\$ 61,199,598</u>	<u>\$ 16,652,552</u>	<u>\$ (20,671,943)</u>	<u>\$ 57,180,207</u>	<u>\$ 12,074,064</u>

Compensated absences are typically liquidated by the general fund.

Bonds payable at June 30, 2020, are comprised of the following issues:

General Obligation Bonds

\$33,420,000 2017 Refunding Bonds (Series A), due in annual installments of \$2,110,000 to \$2,715,000 through year 2031; plus interest at 3.5% to 5.0%	\$ 29,135,000
\$25,780,000 2017 Refunding Bonds (Series B), due in annual installments of \$7,905,000 to \$9,640,000 through year 2021; plus interest at 2.21% to 2.71%.	9,640,000
\$8,885,000 2019 Refunding Bonds, due in annual installments of \$1,000,000 to \$1,980,000 through year 2030; plus interest at 2.450% to 2.814%.	<u>8,885,000</u>
	<u>\$ 47,660,000</u>

MOUNT CLEMENS COMMUNITY SCHOOL DISTRICT

Notes to the Financial Statements

Annual debt service requirements to maturity for bonds is as follows:

Year Ending June 30,	Principal	Interest	Total
2021	\$ 11,750,000	\$ 1,845,630	\$ 13,595,630
2022	2,710,000	1,478,596	4,188,596
2023	2,710,000	1,343,096	4,053,096
2024	2,715,000	1,207,596	3,922,596
2025	3,715,000	1,059,596	4,774,596
2026-2030	21,420,000	2,771,667	24,191,667
2031	2,640,000	99,000	2,739,000
	<u>\$ 47,660,000</u>	<u>\$ 9,805,181</u>	<u>\$ 57,465,181</u>

School Bond Loan Fund

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

	School Bond Loan Fund		School Loan Revolving Fund		Total
	Principal	Interest	Principal	Interest	
Beginning balance	\$ 2,087	\$ 94	\$ 8,560,208	\$ 83,254	\$ 8,645,643
Additions	-	-	7,594,781	172,501	7,767,282
Refunding	-	-	(8,559,058)	(210,942)	(8,770,000)
Ending balance	<u>\$ 2,087</u>	<u>\$ 94</u>	<u>\$ 7,595,931</u>	<u>\$ 44,813</u>	<u>\$ 7,642,925</u>

Capital Lease

The District had a capital lease for copier equipment. Payments during the year were \$27,113 which represented the remainder of the lease payable. The capital assets acquired through the capital leases had an initial cost of \$128,481 and a net book value of \$0 at year end.

MOUNT CLEMENS COMMUNITY SCHOOL DISTRICT

Notes to the Financial Statements

10. SHORT-TERM NOTES PAYABLE

The District has a short-term state aid anticipation notes totaling \$1,384,000 of which \$200,285 is outstanding and included as a liability in the general fund at June 30, 2020. The notes carry interest rates of 1.30% and are due August 20, 2020.

Short-term debt activity for the year ended June 30, 2020, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
State aid notes	\$ 183,005	\$ 1,384,000	\$ (1,366,720)	\$ 200,285

11. COMMITMENTS AND CONTINGENCIES

Under the terms of various Federal and State grants and regulatory requirements, periodic audits are required and certain costs may be questioned as not being appropriate expenditures under the terms of the grants and requirements. Such audits could lead to reimbursement of the grantor or regulatory agencies. However, management does not believe such disallowances, if any, would be material to the financial position of the District.

As is the case with other entities, the District faces exposure from potential claims and legal proceedings involving environmental matters. No such claims or proceedings have been asserted as of June 30, 2020.

12. RISK MANAGEMENT

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

13. PROPERTY TAXES

Property taxes are assessed as of December 31, and attach as an enforceable lien on property as of December 1 of the following year. Taxes are levied by the City of Mount Clemens on July 1st. All levies become delinquent on February 14. The delinquent tax revolving fund of Macomb County advances delinquent real taxes to the District.

MOUNT CLEMENS COMMUNITY SCHOOL DISTRICT

Notes to the Financial Statements

14. RETIREMENT PLAN

Plan Description

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

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

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

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

Pension Benefits Provided

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

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

MOUNT CLEMENS COMMUNITY SCHOOL DISTRICT

Notes to the Financial Statements

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

Other Postemployment Benefits Provided

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

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

MOUNT CLEMENS COMMUNITY SCHOOL DISTRICT

Notes to the Financial Statements

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

Contributions

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

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

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

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

For the year ended June 30, 2020, required and actual contributions from the District to the pension plan were \$1,684,284, which included \$660,209, the amount received from the State and remitted to the System to fund the MPSERS unfunded actuarial accrued liability ("UAAL") stabilization rate.

MOUNT CLEMENS COMMUNITY SCHOOL DISTRICT

Notes to the Financial Statements

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

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

For the year ended June 30, 2020, required and actual contributions from the District to the OPEB plan were \$452,467.

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

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

For the year ended June 30, 2020, required and actual contributions from the District for those members with a defined contribution benefit were \$32,751.

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

At June 30, 2020, the District reported a liability of \$19,977,337 for its proportionate share of the MPSERS net pension liability. The net pension liability was measured as of September 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 2018. The District's proportion of the net pension liability was determined by dividing each employer's statutorily required pension contributions to the system during the measurement period by the percent of pension contributions required from all applicable employers during the measurement period. At September 30, 2019, the District's proportion was 0.06032%, which was an increase 0.00038% from its proportion measured as of September 30, 2018.

MOUNT CLEMENS COMMUNITY SCHOOL DISTRICT

Notes to the Financial Statements

For the year ended June 30, 2020, the District recognized pension expense of \$2,866,768. At June 30, 2020, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources	Net Deferred Outflows (Inflows) of Resources
Differences between expected and actual experience	\$ 89,545	\$ 83,304	\$ 6,241
Changes in assumptions	3,911,577	-	3,911,577
Net difference between projected and actual earnings on pension plan investments	-	640,240	(640,240)
Changes in proportion and differences between employer contributions and proportionate share of contributions	184,202	271,510	(87,308)
	<u>4,185,324</u>	<u>995,054</u>	<u>3,190,270</u>
District contributions subsequent to the measurement date	1,588,442	-	1,588,442
Total	<u>\$ 5,773,766</u>	<u>\$ 995,054</u>	<u>\$ 4,778,712</u>

The \$1,588,442 reported as deferred outflows of resources related to pensions resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30,	Amount
2021	\$ 1,277,554
2022	960,241
2023	674,492
2024	<u>277,983</u>
Total	<u>\$ 3,190,270</u>

MOUNT CLEMENS COMMUNITY SCHOOL DISTRICT

Notes to the Financial Statements

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

At June 30, 2020, the District reported a liability of \$4,313,373 for its proportionate share of the MPSERS net OPEB liability. The net OPEB liability was measured as of September 30, 2019, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation rolled forward from September 2018. The District's proportion of the net OPEB liability was determined by dividing each employer's statutorily required OPEB contributions to the system during the measurement period by the percent of OPEB contributions required from all applicable employers during the measurement period. At September 30, 2019, the District's proportion was 0.06009% which was a decrease of 0.00029% from its proportion measured as of September 30, 2018.

For the year ended June 30, 2020, the District recognized OPEB expense of \$102,703. At June 30, 2020, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources	Net Deferred Outflows (Inflows) of Resources
Differences between expected and actual experience	\$ -	\$ 1,582,699	\$ (1,582,699)
Changes in assumptions	934,621	-	934,621
Net difference between projected and actual earnings on OPEB plan investments	-	75,012	(75,012)
Changes in proportion and differences between employer contributions and proportionate share of contributions	141	33,766	(33,625)
	<u>934,762</u>	<u>1,691,477</u>	<u>(756,715)</u>
District contributions subsequent to the measurement date	<u>402,192</u>	<u>-</u>	<u>402,192</u>
Total	<u>\$ 1,336,954</u>	<u>\$ 1,691,477</u>	<u>\$ (354,523)</u>

MOUNT CLEMENS COMMUNITY SCHOOL DISTRICT

Notes to the Financial Statements

The \$402,192 reported as deferred outflows of resources related to OPEB resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ended June 30,	Amount
2021	\$ (208,431)
2022	(208,431)
2023	(170,990)
2024	(112,002)
2025	<u>(56,861)</u>
Total	<u>\$ (756,715)</u>

Actuarial Assumptions

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

Actuarial cost method	Entry age, normal
Wage inflation rate	2.75%
Investment rate of return:	
MIP and Basic plans (non-hybrid)	6.80%
Pension Plus plan (hybrid)	6.80%
Pension Plus 2 plan (hybrid)	6.00%
OPEB plans	6.95%
Projected salary increases	2.75% - 11.55%, including wage inflation at 2.75%
Cost of living adjustments	3% annual non-compounded for MIP members
Healthcare cost trend rate	7.5% Year 1 graded to 3.5% Year 12
Mortality	RP-2014 Male and Female Employee Annuitant Mortality Tables, adjusted for mortality improvements using projection scale MP-2017 from 2006. For retirees, the tables were scaled by 82% for males and 78% for females. For active members, 100% of the table rates were used for both males and females

MOUNT CLEMENS COMMUNITY SCHOOL DISTRICT

Notes to the Financial Statements

Other OPEB assumptions:

Opt-out assumptions	21% of eligible participants hired before July 1, 2008 and 30% of those hired after June 30, 2008 are assumed to opt-out of the retiree health plan
Survivor coverage	80% of male retirees and 67% of female retirees are assumed to have coverages continuing after the retiree's death
Coverage election at retirement	75% of male and 60% of female future retirees are assumed to elect coverage for 1 or more dependents

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

Long-term Expected Return on Pension Plan Assets

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

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

MOUNT CLEMENS COMMUNITY SCHOOL DISTRICT

Notes to the Financial Statements

Long-term Expected Return on OPEB Plan Assets

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

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

Rate of Return

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

MOUNT CLEMENS COMMUNITY SCHOOL DISTRICT

Notes to the Financial Statements

Discount Rate

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

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

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

	1% Decrease (5.80% / 5.80% / 5.00%)	Current Discount Rate (6.80% / 6.80% / 6.00%)	1% Increase (7.80% / 7.80% / 7.00%)
District's proportionate share of the net pension liability	\$ 25,971,816	\$ 19,977,337	\$ 15,007,707

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

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

	1% Decrease (5.95%)	Current Discount Rate (6.95%)	1% Increase (7.95%)
District's proportionate share of the net OPEB liability	\$ 5,291,000	\$ 4,313,373	\$ 3,492,438

MOUNT CLEMENS COMMUNITY SCHOOL DISTRICT

Notes to the Financial Statements

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

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

	1% Decrease (6.50%)	Current Healthcare Cost Trend Rate (7.50%)	1% Increase (8.50%)
District's proportionate share of the net OPEB liability	\$ 3,457,634	\$ 4,313,373	\$ 5,290,884

Pension and OPEB Plans Fiduciary Net Position

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

Payable to the Pension Plan

At June 30, 2020, the District reported a payable of \$251,654 for the outstanding amount of pension contributions to the Plan required for the year ended June 30, 2020.

Payable to the OPEB Plan

At June 30, 2020, the District reported a payable of \$54,835 for the outstanding amount of OPEB contributions to the Plan required for the year ended June 30, 2020.

15. SUBSEQUENT EVENTS

State aid anticipation notes

On August 20, 2020, the District received proceeds of \$733,000 for a State of Michigan School Aid anticipation note due July 20, 2021. The note bears interest at 0.700%.

On August 20, 2020, the District received proceeds of \$500,000 for a State of Michigan School Aid anticipation note due August 20, 2021. The note bears interest at 0.250%.

On July 30, 2020, the District received proceeds of \$900,000 for a tax anticipation note due December 1, 2020. The note bears interest at 2.0%.

MOUNT CLEMENS COMMUNITY SCHOOL DISTRICT

Notes to the Financial Statements

16. NET INVESTMENT IN CAPITAL ASSETS

The composition of net investment in capital assets as of June 30, 2020, was as follows:

Capital assets:	
Capital assets not being depreciated	\$ 1,118,490
Capital assets being depreciated, net	<u>37,242,003</u>
	<u>38,360,493</u>
Related debt:	
Total bonds payable	47,660,000
Deduct: Bonds payable refunding School Bond Loan Fund	(18,525,000)
Bond premium	1,867,202
Deferred charge on advance refunding	<u>(1,064,865)</u>
	<u>29,937,337</u>
Net investment in capital assets	<u>\$ 8,423,156</u>

17. CORONAVIRUS (COVID-19)

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

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REQUIRED SUPPLEMENTARY INFORMATION

MOUNT CLEMENS COMMUNITY SCHOOL DISTRICT

Required Supplementary Information

MPSERS Cost-Sharing Multiple-Employer Plan

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

	Year Ended June 30,		
	2020	2019	2018
District's proportionate share of the net pension liability	\$ 19,977,337	\$ 18,018,237	\$ 15,644,021
District's proportion of the net pension liability	0.06032%	0.05994%	0.06037%
District's covered payroll	\$ 5,238,918	\$ 5,135,642	\$ 4,887,198
District's proportionate share of the net pension liability as a percentage of its covered payroll	381.33%	350.85%	320.10%
Plan fiduciary net position as a percentage of the total pension liability	60.31%	62.36%	64.21%

See notes to required supplementary information.



Year Ended June 30,		
2017	2016	2015
\$ 15,638,901	\$ 14,489,891	\$ 14,599,748
0.06270%	0.05930%	0.06630%
\$ 5,403,441	\$ 4,930,193	\$ 5,712,588
289.42%	293.90%	255.57%
63.27%	63.17%	66.20%

MOUNT CLEMENS COMMUNITY SCHOOL DISTRICT

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

	Year Ended June 30,		
	2020	2019	2018
Statutorily required contribution	\$ 1,684,284	\$ 1,594,696	\$ 1,712,336
Contributions in relation to the statutorily required contribution	<u>(1,684,284)</u>	<u>(1,594,696)</u>	<u>(1,712,336)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	\$ 5,560,710	\$ 5,180,389	\$ 5,158,056
Contributions as a percentage of covered payroll	30.29%	30.78%	33.20%

See notes to required supplementary information.



Year Ended June 30,		
2017	2016	2015
\$ 1,407,580	\$ 1,081,108	\$ 1,067,786
<u>(1,407,580)</u>	<u>(1,081,108)</u>	<u>(1,067,786)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 5,096,593	\$ 5,346,717	\$ 4,961,857
27.62%	20.22%	21.52%

MOUNT CLEMENS COMMUNITY SCHOOL DISTRICT

Required Supplementary Information

MPSERS Cost-Sharing Multiple-Employer Plan

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

	Year Ended June 30,		
	2020	2019	2018
District's proportionate share of the net OPEB liability	\$ 4,313,373	\$ 4,799,695	\$ 5,356,091
District's proportion of the net OPEB liability	0.06009%	0.06038%	0.06048%
District's covered payroll	\$ 5,238,918	\$ 5,135,642	\$ 4,887,198
District's proportionate share of the net OPEB liability as a percentage of its covered payroll	82.33%	93.46%	109.59%
Plan fiduciary net position as a percentage of the total OPEB liability	48.46%	42.95%	36.39%

See notes to required supplementary information.

MOUNT CLEMENS COMMUNITY SCHOOL DISTRICT

Required Supplementary Information

MPSERS Cost-Sharing Multiple-Employer Plan

Schedule of the District's Other Postemployment Benefit Contributions

	Year Ended June 30,		
	2020	2019	2018
Statutorily required contribution	\$ 452,467	\$ 405,997	\$ 315,856
Contributions in relation to the statutorily required contribution	<u>(452,467)</u>	<u>(405,997)</u>	<u>(315,856)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	\$ 5,560,710	\$ 5,180,389	\$ 5,158,056
Contributions as a percentage of covered payroll	8.14%	7.84%	6.12%

See notes to required supplementary information.

MOUNT CLEMENS COMMUNITY SCHOOL DISTRICT

Notes to Required Supplementary Information

Pension Information

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

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

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

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

OPEB Information

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

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

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

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

SINGLE AUDIT ACT COMPLIANCE

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

October 16, 2020

Board of Education
Mount Clemens Community School District
Mount Clemens, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the *Mount Clemens Community 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. We issued our report thereon dated October 16, 2020, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance) and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Rehmann Loborn LLC

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MOUNT CLEMENS COMMUNITY SCHOOL DISTRICT

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2020

Federal Agency / Cluster / Program Title	CFDA Number	Passed Through	Pass-through / Grantor Number	Approved Grant Award Amount
U.S. Department of Agriculture				
Child Nutrition Cluster:				
National School Breakfast Program	10.553	MDE	191970	\$ 253,335
National School Breakfast Program	10.553	MDE	201970	140,142
National School Lunch Program	10.555	MDE	191960	501,866
National School Lunch Program	10.555	MDE	201960	284,757
COVID-19 - Unanticipated School Closure	10.555	MDE	200902	83,854
Entitlement Commodities (non-cash)	10.555	MDE	n/a	70,177
Summer Food Service Program- Breakfast	10.559	MDE	191900	7,748
Summer Food Service Program- Lunch	10.559	MDE	190900	48,840
Total Child Nutrition Cluster				
Child and Adult Care Food Program- Meals	10.558	MDE	191920	11,889
Child and Adult Care Food Program- Meals	10.558	MDE	201920	8,166
Child and Adult Care Food Program- Cash in lieu	10.558	MDE	192010	356
Child and Adult Care Food Program- Cash in lieu	10.558	MDE	202010	375
Fresh Fruit and Vegetable Program	10.582	MDE	190950	28,446
Fresh Fruit and Vegetable Program	10.582	MDE	200950	15,092
Total U.S. Department of Agriculture				

Accrued (Unearned) Revenue at June 30, 2019	Current Year Cash Received	Expenditures (Memo Only) Prior Year(s)	Federal Expenditures	Accrued (Unearned) Revenue at June 30, 2020
\$ 44,043	\$ 73,316	\$ 224,062	\$ 29,273	\$ -
-	140,142	-	140,142	-
44,043	213,458	224,062	169,415	-
86,164	147,604	440,426	61,440	-
-	284,757	-	284,757	-
-	69,270	-	83,854	14,584
-	70,177	-	70,177	-
86,164	571,808	440,426	500,228	14,584
197	2,176	5,769	1,979	-
2,338	25,748	25,430	23,410	-
2,535	27,924	31,199	25,389	-
132,742	813,190	695,687	695,032	14,584
1,052	1,820	11,121	768	-
-	8,166	-	8,166	-
3	16	343	13	-
-	375	-	375	-
1,055	10,377	11,464	9,322	-
1,680	2,265	27,861	585	-
-	15,092	-	15,092	-
1,680	17,357	27,861	15,677	-
135,477	840,924	735,012	720,031	14,584

continued...

MOUNT CLEMENS COMMUNITY SCHOOL DISTRICT

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2020

Federal Agency / Cluster / Program Title	CFDA Number	Passed Through	Pass-through / Grantor Number	Approved Grant Award Amount
U.S. Department of Education				
Title I:				
Title I, Part A - Improving Basic Programs	84.010	MDE	191530/1819	\$ 1,081,406
Title I, Part A - Improving Basic Programs	84.010	MDE	201530/1920	1,093,686
Title II:				
Title II, Part A - Improving Teacher Quality	84.367	MDE	190520/1819	291,014
Title II, Part A - Improving Teacher Quality	84.367	MDE	200520/1920	250,290
Title IV, Student Support & Academic Enrichment				
Title IV, SSAE	84.424A	MDE	190750/1819	63,332
Title IV, SSAE	84.424A	MDE	200750/1920	82,602
Special Education Cluster (IDEA):				
I.D.E.A. Flow-Through	84.027A	MISD	190450/1819	446,554
I.D.E.A. Flow-Through	84.027A	MISD	200450/1920	554,464
Preschool Incentive				
Preschool Incentive	84.173	MISD	190460/1819	41,878
Preschool Incentive	84.173	MISD	200460/1920	41,891
Total Special Education Cluster				
Total U.S. Department of Education				
Total Federal Financial Assistance				

See notes to schedule of expenditures of federal awards.

Accrued (Unearned) Revenue at June 30, 2019	Current Year Cash Received	Expenditures (Memo Only) Prior Year(s)	Federal Expenditures	Accrued (Unearned) Revenue at June 30, 2020
\$ 142,532	\$ 145,013	\$ 997,379	\$ 2,481	-
-	754,807	-	1,037,645	282,838
<u>142,532</u>	<u>899,820</u>	<u>997,379</u>	<u>1,040,126</u>	<u>282,838</u>
23,769	23,769	206,864	-	-
-	123,632	-	169,978	46,346
<u>23,769</u>	<u>147,401</u>	<u>206,864</u>	<u>169,978</u>	<u>46,346</u>
838	838	54,770	-	-
-	24,687	-	33,884	9,197
<u>838</u>	<u>25,525</u>	<u>54,770</u>	<u>33,884</u>	<u>9,197</u>
142,291	164,428	406,620	24,726	2,589
-	296,061	-	553,356	257,295
<u>142,291</u>	<u>460,489</u>	<u>406,620</u>	<u>578,082</u>	<u>259,884</u>
246	246	41,878	-	-
-	41,891	-	41,891	-
<u>246</u>	<u>42,137</u>	<u>41,878</u>	<u>41,891</u>	<u>-</u>
<u>142,537</u>	<u>502,626</u>	<u>448,498</u>	<u>619,973</u>	<u>259,884</u>
<u>309,676</u>	<u>1,575,372</u>	<u>1,707,511</u>	<u>1,863,961</u>	<u>598,265</u>
<u>\$ 445,153</u>	<u>\$ 2,416,296</u>	<u>\$ 2,442,523</u>	<u>\$ 2,583,992</u>	<u>\$ 612,849</u>

concluded.

MOUNT CLEMENS COMMUNITY SCHOOL DISTRICT

Notes to Schedule of Expenditures of Federal Awards

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of Mount Clemens Community Schools (the "District") under programs of the federal government for the year ended June 30, 2020. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position, changes in net position or cash flows of the District.

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting, which is described in note 1 to the District's financial statements. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available.

Cash received is recorded on the cash basis; expenditures are recorded on the modified accrual basis of accounting. Revenues are recognized when the qualifying expenditures have been incurred and all grant requirements have been met.

The Schedule has been arranged to provide information on both actual cash received and the revenue recognized. Accordingly, the effects of accruals of accounts receivable, unearned revenue and accounts payable items at both the beginning and end of the fiscal year have been reported.

Expenditures are in agreement with amounts reported in the financial statements and the financial reports. The amounts reported on the Grant Auditor Report reconcile with this Schedule.

2. 10% DE MINIMIS COST RATE

For purposes of charging indirect costs to federal awards, the District has not elected to use the de minimis cost rate as permitted by §200.414 of the Uniform Guidance.

3. PASS-THROUGH AGENCIES

The District receives certain federal grants as subawards from non-federal entities. Pass-through entities, where applicable, have been identified in the Schedule with an abbreviation, defined as follows:

Pass-through Agency Abbreviation	Pass-through Agency Name
MDE	Michigan Department of Education
MISD	Macomb Intermediate School District

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

October 16, 2020

Board of Education
Mount Clemens Community District
Mount Clemens, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Mount Clemens Community 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, and have issued our report thereon dated October 16, 2020.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs as items 2020-001 and 2020-002 that we consider to be significant deficiencies.

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Compliance and Other Matters

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

Mount Clemens Community District District's Response to Findings

The District's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

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

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

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

October 16, 2020

Board of Education
Mount Clemens Community District
Mount Clemens, Michigan

Report on Compliance for the Major Federal Program

We have audited the compliance of the Mount Clemens Community District (the "District") with the types of compliance requirements described in the OMB Compliance Supplement that could have a direct and material effect on the District's major federal program for the year ended June 30, 2020. The District's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Independent Auditors' Responsibility

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

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

Opinion on the Major Federal Program

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

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2020-003 and 2020-004. Our opinion on the major federal program is not modified with respect to these matters.

The District's responses to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The District's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on them.

Report on Internal Control Over Compliance

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we did identify a certain deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2020-003 that we consider to be a significant deficiency.

The District's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on it.

Purpose of this Report

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

Rehmann Lohman LLC

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MOUNT CLEMENS COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2020

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? yes X no

Significant deficiency(ies) identified? X yes none reported

Noncompliance material to financial statements noted? yes X no

Federal Awards

Internal control over major programs:

Material weakness(es) identified? yes X no

Significant deficiency(ies) identified? X yes none reported

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? X yes no

Identification of major programs/
Type of auditor's report issued on
compliance for major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>	<u>Opinion</u>
84.010	Title I Grants to Local Educational Agencies	Unmodified

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

Auditee qualified as low-risk auditee? yes X no

MOUNT CLEMENS COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2020

SECTION II - FINANCIAL STATEMENT FINDINGS

2020-001 - Unauthorized Compensation

Finding Type. Significant Deficiency in Internal Control over Financial Reporting.

Criteria. Board policy 3120, Employment of Professional Staff, stipulates that the "Board shall approve the employment, and also, when not covered by the terms of a negotiated collective bargaining agreement, fix the compensation and establish the term of employment for each professional staff member employed by this District."

Condition. During the year, the District paid approximately \$19,000 in compensation to certain administrators for unused vacation that was not authorized by the Board of Education through employee contracts or subsequent board action.

Cause. This condition appeared to be the result of the previous superintendent authorizing payments without obtaining appropriate approvals through the Board of Education as required by board policy.

Effect. As a result of this condition, the District incurred unauthorized expenditures that were significant to the financial statements.

Recommendation. We recommend that the District evaluate its internal control policies and procedures to ensure that all payments are made in accordance with board policy.

View of Responsible Officials. Administration acknowledges the situation. Moving forward Administration will strictly adhere to the terms as defined in the employment contracts. No changes will be made without a board resolution authorizing the change.

Responsible Official. Assistant Superintendent of Business and Support Services

Estimated Completion Date. June 30, 2021

MOUNT CLEMENS COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2020

2020-002 - Budget Variances

Finding Type. Significant Deficiency in Internal Control over Financial Reporting.

Criteria. State law requires the District to appropriate funds through the budgeting process and only spend within those amounts approved by the Board of Education.

Condition. The District's actual expenditures in the general fund were approximately \$824,000 over the amounts authorized in the final budget amendment that was approved by the Board.

Cause. This condition appeared to be the result of the final amendment not capturing emergency repairs and other costs in the budgeting process.

Effect. As a result of this condition, the District incurred significant expenditures over the amounts approved by the Board.

Recommendation. We recommend that the District evaluate its internal control policies and procedures to ensure that budgets include all costs and are approved by the Board.

View of Responsible Officials. Administration acknowledges this is a material oversight. Moving forward the district will compare budgets to YTD actual figures to be sure that we are budgeting an adequate amount of funds to see us through the end of the fiscal year.

Responsible Official. Assistant Superintendent of Business and Support Services

Estimated Completion Date. June 30, 2021

MOUNT CLEMENS COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2020

SECTION III - FEDERAL AWARD FINDING AND QUESTIONED COSTS

2020-003 - Allowable Costs/Cost Principles - Payroll Charges (repeat)

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

Federal program(s)

U.S. Department of Education:

- Title I Grants to Local Educational Agencies (CFDA# 84.010); Passed through MDE; All project numbers

Criteria. The Uniform Guidance requires the District to support payroll charged to federal cost objectives with adequate documentation in accordance with the District's payroll policies, which require approved personnel activity reports, semi-annual certifications or timesheets and rates for hourly individuals.

Condition. One of the 40 individuals selected for testing did not have personnel activity reports, timesheets or semi-annual certifications, which are required by the District's policy, that agreed to the amount being charged to the grant.

Cause. This condition appears to have been an oversight by the individual filling out the personnel activity report.

Effect. Payroll expenditures were not charged to the grant based on adopted District policy, which is required under the Uniform Guidance.

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

Recommendation. We recommend that the District follow its federal policies and retain the appropriate documentation.

View of Responsible Officials. Administration acknowledges the oversight and will implement procedures to confirm that all eligible grant paid employees are included on direct certifications, or are completing personnel activity reports as required.

Responsible Official. Assistant Superintendent of Business and Support Services

Estimated Completion Date. June 30, 2021

MOUNT CLEMENS COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2020

SECTION III - FEDERAL AWARD FINDING AND QUESTIONED COSTS

2020-004 - Matching, Level of Effort and Earmarking - Parental Involvement

Finding Type. Immaterial Noncompliance

Federal program(s)

U.S. Department of Education:

- Title I Grants to Local Educational Agencies (CFDA# 84.010); Passed through MDE; All project numbers

Criteria. The State of Michigan requires that LEAs with allocations of more than \$500,000 reserve at least 1% of their allocation for parental involvement activities and that the District distribute not less than 95% of the amount reserved for parental involvement to schools receiving Title I services.

Condition. The District appropriately budgeted 1% of its allocation on parental involvement activities; however, only approximately 13% of the allocation was actually expended during the grant period.

Cause. This condition appears to have been oversight in spending the required amount on parental involvement activities.

Effect. The District did not comply with earmarking requirements for the grant program.

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

Recommendation. We recommend that the District implement procedures to ensure that earmarking requirements of the program are met.

View of Responsible Officials. The District acknowledges that the funds were not spent in an adequate fashion before the unexpected COVID-19 pandemic shutdown. Moving forward administration will be sure to share all details of application activities with building administrators and monitor that funds are being used as required.

Responsible Official. Assistant Superintendent of Business and Support Services

Estimated Completion Date. June 30, 2021

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MOUNT CLEMENS COMMUNITY SCHOOL DISTRICT

Summary Schedule of Prior Audit Findings

For the Year Ended June 30, 2020

Finding 2019-001 - Significant Audit Adjustments

The District had significant adjustments (which were approved and posted by management) to adjust the District's general ledger to the appropriate balances. There were no significant adjustments in the current year and as a result, this finding was adequately resolved.

Finding 2019-002 - Allowable Costs/Cost Principles - Payroll Charges (repeat)

The District did not allocate federal payroll charges based on actual time worked and the District was out of compliance with its own policies, and as a result, federal regulations. This finding was not adequately resolved. See finding 2020-003 in the current year Schedule of Findings and Questioned Costs.

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