

MONTROSE COMMUNITY SCHOOLS

REPORT ON FINANCIAL STATEMENTS
(with required supplementary and additional
supplementary information)

JUNE 30, 2020

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October 26, 2020

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of
Montrose Community Schools

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

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

-I-

Emphasis of Matter – Change in Accounting Principle

As discussed in Note 14 to the financial statements, the District implemented Governmental Accounting Standards Board Statement No. 84, *Fiduciary Activities*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Montrose Community Schools' basic financial statements. The combining and individual non-major fund and other schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 26, 2020, on our consideration of the Montrose Community Schools' 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Montrose Community Schools' 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 Montrose Community Schools' internal control over financial reporting and compliance.

Lewis & Knopf, P.C.

LEWIS & KNOPF, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

MONTROSE COMMUNITY SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS

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

Financial Highlights

- * The liabilities and deferred inflows of the District exceeded its assets and deferred outflows at the close of the most recent fiscal year by \$22,567,218 (net position).
- * The District's total net position decreased by \$932,597. The decrease was primarily due to pension and OPEB related items.
- * The general fund had an increase in fund balance of \$656,279. At the end of the year, unassigned fund balance for the general fund was \$3,772,295, or 25%, of total general fund expenditures. Total fund balance for the general fund was \$4,949,536, or 33%, of total general fund expenditures.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. The statements are organized so the reader can understand the District financially as a whole. The District-Wide Financial Statements provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. The financial statements then proceed to provide an increasingly detailed look at specific financial activities included in the fund financial statements. For governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements provide information about the School District's most significant funds - the General Fund, Cafeteria Fund and 2011 Debt Fund. All other funds are presented in one column as non-major funds.

MONTROSE COMMUNITY SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS

<u>MAJOR FEATURES OF DISTRICT-WIDE AND FUND FINANCIAL STATEMENTS</u>			
	<u>District-Wide Statements</u>	<u>Fund Financial Statements</u>	
		<u>Governmental Funds</u>	<u>Fiduciary Funds</u>
Scope	Entire District (except Fiduciary Funds)	The activities of the District that are not proprietary or fiduciary such as special education and building maintenance	Instances in which the District administers resources on behalf of someone else, such as certain student activities monies
Required Financial Statements	* Statement of Net Position * Statement of Activities (Pages 1 and 2)	* Balance Sheet * Statement of Revenues, Expenditures and Changes in Fund Balances (Pages 3 and 4)	* Statement of Fiduciary Net Position * Statement of Changes in Fiduciary Net Position
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting economic resources focus
Type of Asset/ Liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both short-term and long-term, The District's funds do not currently contain capital assets, although they can
Type of Inflow/ Outflow Information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received	All additions and deductions during year, regardless of when cash is received or paid

Fund Financial Statements

The fund financial statements are reported on a modified accrual basis and consist of governmental funds. Governmental funds include most of the District's basic services which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending on future District programs.

Fiduciary funds are for assets that belong to others, such as certain student activities funds where the District is the trustee or fiduciary. The District cannot use these assets to finance its operations but it is responsible to ensure that these funds are used for their intended purposes. Only measurable and currently available funds are reported. Liabilities to beneficiaries are recognized when an event has occurred that compels the District to disburse fiduciary resources. Some of these funds are established by State law and by bond covenants while others can be established for the District to control and manage money for a particular purpose such as school lunch and athletics.

MONTROSE COMMUNITY SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS

SUMMARY OF NET POSITION:

<u>NET POSITION SUMMARY</u>		
	<u>2020</u>	<u>2019</u>
<u>ASSETS</u>		
Other Assets	\$7,463,549	\$6,542,818
Capital Assets	<u>15,887,550</u>	<u>16,120,133</u>
<u>TOTAL ASSETS</u>	\$23,351,099	\$22,662,951
<u>DEFERRED OUTFLOWS OF RESOURCES</u>		
	<u>10,130,029</u>	<u>9,444,967</u>
<u>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</u>	\$33,481,128	\$32,107,918
<u>LIABILITIES</u>		
Other Liabilities	33,786,389	31,308,217
Long-Term Liabilities	<u>18,136,034</u>	<u>18,567,936</u>
Total Liabilities	\$51,922,423	\$49,876,153
<u>DEFERRED INFLOWS OF RESOURCES</u>		
	<u>4,125,923</u>	<u>4,216,677</u>
<u>TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES</u>	\$56,048,346	\$54,092,830
<u>NET POSITION</u>		
Net Investment in Capital Assets	(1,479,460)	3,135,164
Restricted	210,752	117,229
Unrestricted	<u>(21,298,510)</u>	<u>(25,237,305)</u>
<u>TOTAL NET POSITION</u>	<u>(\$22,567,218)</u>	<u>(\$21,984,912)</u>

The above analysis focuses on the net position. The change in net position of the School District's governmental activities is discussed below. The net position differs from fund balances and a reconciliation appears on page 3.

The District's net position reflects its investment in capital assets, and capital projects (i.e. land, buildings, vehicles, equipment, and infrastructure), less any related debt used to acquire those assets that are still outstanding. The District uses these capital assets to provide services to citizens; 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 to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the District's net position, \$210,752, represents resources that are subject to external restrictions on how they may be used. In the case of the School District, these amounts are restricted for debt service and capital projects. Most of the debt will be repaid from voter-approved property taxes collected as the debt service comes due.

The results of this year's operations for the School District as a whole are reported in the statement of activities (see table), which shows the changes in net position for fiscal year 2020.

MONTROSE COMMUNITY SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS OF OPERATIONS:

For the fiscal years ended June 30, 2020 and 2019, the District wide results of operations were:

	<u>2020</u>	<u>2019</u>
<u>REVENUES</u>		
<u>Program Revenues</u>		
Charges for Services	\$510,776	\$447,165
Operating Grants	4,240,998	4,428,524
Total Program Revenues	<u>\$4,751,774</u>	<u>\$4,875,689</u>
<u>General Revenues:</u>		
Property Taxes	2,009,789	1,936,976
State Sources - Unrestricted	11,204,620	10,811,419
Interdistrict Sources	151,853	121,932
Other General Revenues	256,573	36,162
Total General Revenues	<u>\$13,622,835</u>	<u>\$12,906,489</u>
Total Revenues	<u>\$18,374,609</u>	<u>\$17,782,178</u>
<u>EXPENSES</u>		
Instruction & Instructional Support	10,824,765	9,629,615
Support Services	5,587,662	5,699,503
Community Services	111,459	119,666
Food Service	895,933	904,813
Student Activities	304,308	0
Interest on Long-Term Debt	882,326	945,324
Bond Issuance Costs	104,572	0
Depreciation	596,181	573,940
Total Expenses	<u>\$19,307,206</u>	<u>\$17,872,861</u>
<u>CHANGE IN NET POSITION</u>	<u>(\$932,597)</u>	<u>(\$90,683)</u>

The District's net position decreased by \$932,597 during the current fiscal year. The decrease in net position differs from the change in fund balances and a reconciliation appears on page 4.

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

Student Enrollment

Student enrollment increased from 1,472 in 2018-19 to 1,480 in 2019-20.

MONTROSE COMMUNITY SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS

General Fund Budgeting and Operating Highlights

The School District's budgets are prepared according to Michigan law. The most significant budgeted fund is the General Fund.

During the fiscal year ended June 30, 2020, the School District amended the budget of the General Fund two times. State law requires that the budget be amended to ensure that expenditures do not exceed appropriation. A schedule showing the School District's general fund original and final budget amounts compared with amounts actually paid and received is provided in required supplemental information of these financial statements.

The general fund actual revenue and other financing sources was \$15,507,847. That amount is more than the final budget estimate of \$14,834,027. The variance was \$673,820 or 5%. The variance was due to the budgeted projected decrease of \$700 per pupil in the Foundation Allowance. The actual decrease was \$175 per pupil.

The actual expenditures and other financing uses of the general fund were \$14,851,568 which is below the final budget estimate of \$15,301,230. The variance was \$449,662 or 3%. The variance was due to decreased expenditures in capital outlay, building repairs, and supplies.

The general fund had total revenues of \$15,507,847 and total expenditures of \$14,851,568 with a net increase in fund balance of \$656,279 and an ending fund balance of \$4,949,536.

Capital Asset and Debt Administration

A. Capital Assets

The District's investment in capital assets for its governmental activities as of June 30, 2020 amounted to \$15,887,550 (net of accumulated depreciation). This investment in capital assets included land, land improvements, machinery and equipment, and licensed vehicles. Capital assets at fiscal year-end included the following:

	Capital Assets (Net of Depreciation)	
	<u>2020</u>	<u>2019</u>
Land	\$49,925	\$49,925
Buildings and Improvements	14,707,677	14,965,876
Equipment and Furniture	1,015,047	1,026,844
Vehicles	<u>114,901</u>	<u>77,488</u>
<u>Total capital assets, net</u>	<u>\$15,887,550</u>	<u>\$16,120,133</u>

Additional information on the District's capital assets can be found in Note 4.

MONTROSE COMMUNITY SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS

Capital Asset and Debt Administration (Continued)

B. Debt

At the end of the current fiscal year, the District had total long-term debt outstanding of \$18,136,034. Long-term debt at fiscal year-end included the following:

	Long-Term Debt	
	2020	2019
General Obligation Bonds	\$17,442,585	\$12,960,231
Notes from Direct Borrowings and Direct Placements	463,125	5,426,893
Compensated Absences	230,324	180,812
<u>Total Long-Term Debt</u>	<u>\$18,136,034</u>	<u>\$18,567,936</u>

The District's total bonded debt decreased by \$3,155,000 during the current fiscal year due to the District making scheduled debt payments. The District issued \$7,585,000 in refunding bonds during the current year. Additional information on the District's long-term debt can be found in Note 6.

Economic Factors and Next Year's Budget

The following factors will affect the District in the future and were considered in preparing the District's budget for the 2020-21 fiscal year:

* Foundation Allowance

The Board of Education and Administration agreed to an estimate of a foundation allowance of \$7,474 per pupil for the 2020-21 fiscal year, a \$700 per pupil decrease from 2019-20, based on the unknown 2020-21 State School Aid Act legislation, and information received from various educational organizations such as Michigan School Business Officials, Michigan Association of School Administrators, and the Michigan Association of School Boards as well as discussions with local state representatives. The political debate regarding the funding of public education, the current economic climate in the State of Michigan will all affect this estimate before the final foundation allowance is known.

* Retirement Rate

The continuing cost of health insurance to current and potential retirees continues to drive the rate increase the Michigan School Employees Retirement System recommends to the legislature for approval. In 2020-21, the rate is anticipated to increase to 28.21% from 27.50% effective October 1, 2020. Additionally, the District will be required to pay 14.51%, for all wages earned October 1, 2020 and later, for the Unfunded Actuarial Accrued Liability (UAAL).

* The Montrose Community Schools' 2020/2021 adopted budget is as follows:

<u>REVENUE</u>	\$14,560,811
<u>EXPENDITURES</u>	15,705,857
<u>NET (UNDER) BUDGET</u>	(\$1,145,046)

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

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

BASIC FINANCIAL STATEMENTS

MONTROSE COMMUNITY SCHOOLS
STATEMENT OF NET POSITION
JUNE 30, 2020

	Governmental Activities
<u>ASSETS</u>	
Cash and Cash Equivalents	\$4,793,182
Receivables:	
Accounts Receivable	17,121
Due from Other Governmental Units	2,621,051
Prepaid Expenditures	32,195
Capital Assets, Non-Depreciable - Land	49,925
Capital Assets, Net of Accumulated Depreciation	15,837,625
Total Assets	\$23,351,099
 <u>DEFERRED OUTFLOWS OF RESOURCES</u>	
Deferred Charge on Refunding	75,575
Related to Pensions	8,049,623
Related to Postemployment Benefits	2,004,831
Total Deferred Outflows of Resources	\$10,130,029
 <u>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</u>	 \$33,481,128
 <u>LIABILITIES</u>	
Accounts Payable	250,815
Due to Other Governmental Units	184,398
Salaries Payable	827,974
Accrued Expenditures	396,880
Unearned Revenue	35,370
Non-Current Liabilities - Due Within One Year	1,391,006
Non-Current Liabilities - Due in More than One Year	16,745,028
Net Pension Liability	26,395,100
Net Other Postemployment Benefits Liability	5,695,852
Total Liabilities	\$51,922,423
 <u>DEFERRED INFLOWS OF RESOURCES</u>	
Related to State Aid Funding for Pension and Other Postemployment Benefits	868,011
Related to Pensions	1,061,719
Related to Other Postemployment Benefits	2,196,193
Total Deferred Inflows of Resources	\$4,125,923
 <u>TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES</u>	 \$56,048,346
 <u>NET POSITION</u>	
Net Investment in Capital Assets	(1,479,460)
Restricted	210,752
Unrestricted	(21,298,510)
 <u>TOTAL NET POSITION</u>	 (22,567,218)

See notes to the financial statements.

MONTROSE COMMUNITY SCHOOLS
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2020

<u>FUNCTIONS/PROGRAMS</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Governmental</u>
		<u>Charges For</u>	<u>Program</u>	<u>Activities</u>
		<u>Services</u>	<u>Specific</u>	<u>Net (Expense)</u>
			<u>Operating</u>	<u>Revenue and</u>
			<u>Grants and</u>	<u>Change in</u>
			<u>Contributions</u>	<u>Net Position</u>
Governmental Activities:				
Instruction	\$10,824,765	\$110,486	\$3,113,743	(\$7,600,536)
Support Services	5,587,662	88,260	397,721	(5,101,681)
Community Services	111,459	0	0	(111,459)
Food Service	895,933	145,947	729,534	(20,452)
Student Activities	304,308	166,083	0	(138,225)
Interest - Long-Term Obligations	882,326	0	0	(882,326)
Bond Issuance Costs	104,572	0	0	(104,572)
Depreciation - Unallocated	596,181	0	0	(596,181)
<u>Total Governmental Activities:</u>	<u>\$19,307,206</u>	<u>\$510,776</u>	<u>\$4,240,998</u>	<u>(\$14,555,432)</u>
General Revenues:				
Taxes:				
Property Taxes, Levied for General Purposes				662,969
Property Taxes, Levied for Debt Retirement				1,178,751
Property Taxes, Levied for Capital Projects				168,069
State Sources - Unrestricted				11,204,620
Interdistrict Sources				151,853
Interest				9,432
Other General Revenues				247,141
Total General Revenues				<u>\$13,622,835</u>
Change in Net Position				(\$932,597)
Net Position - Beginning of Year - As Restated				<u>(21,634,621)</u>
<u>Net Position - End of Year</u>				<u>(\$22,567,218)</u>

See notes to the financial statements.

MONTROSE COMMUNITY SCHOOLS
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2020

	General Fund	Cafeteria Fund	2011 Debt	Non-Major Governmental Funds	Total Governmental Funds
<u>ASSETS</u>					
Cash and Cash Equivalents	\$3,690,732	\$434,885	\$4,253	\$663,312	\$4,793,182
Receivables:					
Accounts Receivable	17,046	0	0	75	17,121
Due from Other Funds	211,048	0	0	0	211,048
Due from Other Governmental Units	2,559,021	62,030	0	0	2,621,051
Prepaid Expenditures	32,195	0	0	0	32,195
<u>TOTAL ASSETS</u>	<u>\$6,510,042</u>	<u>\$496,915</u>	<u>\$4,253</u>	<u>\$663,387</u>	<u>\$7,674,597</u>
<u>LIABILITIES</u>					
Accounts Payable	\$249,853	\$962	\$0	\$0	\$250,815
Due to Other Funds	0	211,048	0	0	211,048
Due to Other Governmental Units	184,398	0	0	0	184,398
Salaries Payable	826,506	1,468	0	0	827,974
Accrued Expenditures	276,388	0	0	0	276,388
Unearned Revenue	23,361	12,009	0	0	35,370
Total Liabilities	<u>\$1,560,506</u>	<u>\$225,487</u>	<u>\$0</u>	<u>\$0</u>	<u>\$1,785,993</u>
<u>FUND BALANCES</u>					
Non-Spendable					
Prepaid Expenditures	32,195	0	0	0	32,195
Restricted					
Debt Retirement	0	0	4,253	95,395	99,648
Food Service	0	271,428	0	0	271,428
Capital Projects	0	0	0	231,596	231,596
Committed					
Student Activities	0	0	0	336,396	336,396
Assigned					
Subsequent Year Expenditures	1,145,046	0	0	0	1,145,046
Unassigned	3,772,295	0	0	0	3,772,295
Total Fund Balances	<u>\$4,949,536</u>	<u>\$271,428</u>	<u>\$4,253</u>	<u>\$663,387</u>	<u>\$5,888,604</u>
<u>TOTAL LIABILITIES AND FUND BALANCES</u>	<u>\$6,510,042</u>	<u>\$496,915</u>	<u>\$4,253</u>	<u>\$663,387</u>	<u>\$7,674,597</u>

See notes to the financial statements.

MONTROSE COMMUNITY SCHOOLS
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET POSITION OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2020

Total Governmental Fund Balances:		\$5,888,604
Amounts reported for governmental activities in the statement of net position are different because:		
Deferred Outflows of Resources - Related to Pensions		8,049,623
Deferred Outflows of Resources - Related to Postemployment Benefits		2,004,831
Deferred Inflows Related to State Aid Funding for Pension and Other Postemployment Benefits		(868,011)
Deferred Inflows of Resources - Related to Pensions		(1,061,719)
Deferred Inflows of Resources - Related to Other Postemployment Benefits		(2,196,193)
Deferred Inflows of Resources - Related to Refunding		75,575
Capital assets used in governmental activities are not financial resource and therefore are not reported as assets in governmental funds.		
Capital Assets	\$31,524,868	
Less: Accumulated Depreciation	<u>(15,637,318)</u>	
Capital Assets, Net of Accumulated Depreciation		15,887,550
Accrued Interest on Long-Term Debt		(120,492)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year end consist of:		
General Obligation Bonds	\$17,442,585	
Notes from Direct Borrowings and Direct Placements	463,125	
Compensated Absences Payable	<u>230,324</u>	
Total Long-Term Liabilities		(18,136,034)
Net Pension Liability		(26,395,100)
Net Other Postemployment Benefits Liability		<u>(5,695,852)</u>
<u>TOTAL NET POSITION -</u>		
<u>GOVERNMENTAL ACTIVITIES</u>		<u>(\$22,567,218)</u>

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

	General Fund	Cafeteria Fund	2011 Debt	Non-Major Governmental Funds	Total Governmental Funds
REVENUES					
Local Sources	\$990,731	\$147,264	\$50,089	\$1,587,154	\$2,775,238
State Sources	13,543,215	33,135	211	5,461	13,582,022
Federal Sources	775,148	696,399	0	392,049	1,863,596
Interdistrict Sources	151,853	0	0	0	151,853
Total Revenues	<u>\$15,460,947</u>	<u>\$876,798</u>	<u>\$50,300</u>	<u>\$1,984,664</u>	<u>\$18,372,709</u>
EXPENDITURES					
Instruction	9,325,340	0	0	0	9,325,340
Student Services	626,427	0	0	0	626,427
Instructional Support	515,884	0	0	0	515,884
General Administration	325,703	0	0	0	325,703
School Administration	1,055,601	0	0	0	1,055,601
Business Administration	338,445	0	0	0	338,445
Operation & Maintenance of Plant	1,444,150	0	0	0	1,444,150
Transportation	545,851	0	0	0	545,851
Support Services - Other	439,068	0	0	0	439,068
Community Services	96,255	0	0	0	96,255
Outgoing Transfers and Other Uses	137,959	0	0	0	137,959
Food Service	0	851,489	0	0	851,489
Student Activities	0	0	0	304,308	304,308
Debt Retirement					
Principal	0	0	4,905,951	1,355,000	6,260,951
Interest	0	0	787,857	613,378	1,401,235
Other	0	0	750	1,850	2,600
Capital Projects	0	0	0	82,403	82,403
Total Expenditures	<u>\$14,850,683</u>	<u>\$851,489</u>	<u>\$5,694,558</u>	<u>\$2,356,939</u>	<u>\$23,753,669</u>
Excess (Deficiency) of Revenue Over (Under) Expenditures:	\$610,264	\$25,309	(\$5,644,258)	(\$372,275)	(\$5,380,960)
OTHER FINANCING SOURCES (USES)					
Transfer In	45,000	885	22,134	0	68,019
Transfers Out	(885)	(45,000)	0	(22,134)	(68,019)
Other Transactions	1,900	0	0	0	1,900
Bond Proceeds	0	0	7,628,608	476,119	8,104,727
Issuance Costs	0	0	(104,572)	0	(104,572)
Payments to Escrow Agen	0	0	(1,901,482)	0	(1,901,482)
Total Other Financing Sources (Uses)	<u>\$46,015</u>	<u>(\$44,115)</u>	<u>\$5,644,688</u>	<u>\$453,985</u>	<u>\$6,100,573</u>
Net Change in Fund Balance	\$656,279	(\$18,806)	\$430	\$81,710	\$719,613
FUND BALANCE - BEGINNING OF YEAR - AS RESTATED					
	4,293,257	290,234	3,823	581,677	5,168,991
FUND BALANCE - END OF YEAR					
	<u>\$4,949,536</u>	<u>\$271,428</u>	<u>\$4,253</u>	<u>\$663,387</u>	<u>\$5,888,604</u>

See notes to the financial statements

MONTROSE COMMUNITY SCHOOLS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2020

Total net change in fund balances - governmental fund	\$719,613
<p>Amounts reported for governmental activities in the statement of activities are different because</p>	
<p>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 as depreciation expense.</p>	
Capital Outlay	363,598
Depreciation Expense	(596,181)
<p>Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. This is the amount of repayments reported as expenditures in the governmental funds</p>	
	3,155,000
Net Change - MI School Bond Loan Fund	4,963,768
Bond Proceeds	(7,585,000)
Issuance Deferred Charge on Refunding	101,481
Amortization of:	
Bond Discounts	(59,760)
Bond Premiums	7,406
Deferred Charge on Refunding	(1,168)
Change in accrued interest on long-term liabilities	(2,512)
Change in accrued compensated absence	(49,512)
<p>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 governmental funds</p>	
State Aid Funding for Pension and Other Postemployment Benefit	(2,466)
Pension Related Items	(2,302,327)
OPEB Related Items	355,463
<u>CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES</u>	<u>(\$932,597)</u>

MONTROSE COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A) DESCRIPTION OF GOVERNMENT-WIDE 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 nonfiduciary activities of the District. All fiduciary activities are reported only in the fund financial statements. Governmental activities normally are supported by taxes, intergovernmental revenues, and other nonexchange transactions.

B) REPORTING ENTITY

The District is governed by an elected seven-member Board of Education. The accompanying basic financial statements have been prepared in accordance with criteria established by the GASB for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are part of the District's reporting entity and which organizations are legally separate component units of the District. Based on application of the criteria, the District does not contain component units.

The District receives funding from local, state, federal and interdistrict government sources and must comply with the accompanying requirements of these funding source entities. However, the District is not included in any other governmental "reporting entity" body that has separate legal standing and is fiscally independent of the governmental entities. As such, the Board of Education has decision-making authority, the authority to levy taxes, and determine its budget, the power to designate management, the ability to significantly influence operations and primary accountability for fiscal matters.

C) BASIS OF PRESENTATION - GOVERNMENT-WIDE FINANCIAL STATEMENTS

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from the governmental funds. Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

D) BASIS OF PRESENTATION - FUND FINANCIAL STATEMENTS

The fund financial statements provide information about the District's funds, including its fiduciary funds (if any). Separate statements for each fund category - governmental and fiduciary - are presented. The emphasis of fund financial statements is on major governmental funds. All remaining governmental funds are aggregated and reported as nonmajor funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

The School District reports the following major governmental fund:

General Fund - The General Fund is the School District's primary operating fund. It accounts for all financial resources of the School District, except those required to be accounted for and reported in another fund.

The School District reports the following fund types:

Special Revenue Funds - The special revenue funds accounts for revenue sources that are legally restricted to expenditures for specific purposes (not including expendable trusts or major capital projects). The District accounts for its food service and student/school activities in the special revenue funds. (The Cafeteria Fund is a major fund).

MONTROSE COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D) BASIS OF PRESENTATION - FUND FINANCIAL STATEMENTS

Debt Retirement Funds - The Debt Retirement Fund are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs. (The 2011 Debt Retirement Fund is a major fund).

Capital Projects Sinking Funds - The Capital Projects Sinking Funds records capital project activities funded with Sinking Fund millage. For this fund, the school district has complied with the applicable provision of §1212 of the Revised School Code.

During the course of operations the District has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds. While these balances are reported in the fund financial statements, they are eliminated in the preparation of the government-wide financial statements.

Further, certain activity occurs during the year involving transfers of resources between funds. In the fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in the fund financial statements, they are eliminated in the preparation of the government-wide financial statements.

E) MEASUREMENT FOCUS, BASIS OF ACCOUNTING

The accounting and financial reporting treatment applied to the financial statements is determined by its measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as current financial resources or economic resources. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates are primarily related to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

Government-wide Financial Statements - The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants, categorical aid, and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Fiduciary Fund Financial Statements (if any) are reported using the economic resources measurement focus and the accrual basis of accounting, except for the recognition of certain liabilities to the beneficiaries of a fiduciary activity. Liabilities to beneficiaries are recognized when an event has occurred that compels the District to disburse fiduciary resources.

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. Revenue not meeting this definition is classified as a deferred inflow of resources. For this purpose, the School District considers revenue to be available if it is collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

MONTROSE COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E) MEASUREMENT FOCUS, BASIS OF ACCOUNTING (Continued)

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

Amounts reported as program revenue include (1) charges to customers or applicants for goods, services, or privileges provided and (2) operating grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes and unrestricted state aid.

F) CASH AND CASH EQUIVALENTS

Cash and cash equivalents include amounts in demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

In accordance with Michigan Compiled Laws, the District is authorized to invest in the following investment vehicles:

- a. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank which is a member of the Federal Deposit Insurance Corporation (FDIC) or a savings and loan association which is a member of the Federal Savings and Loan Insurance Corporation (FSLIC) or a credit union which is insured by the National Credit Union Administration (NCUA), but only if the bank, savings and loan association, or credit union is eligible to be a depository of surplus funds belonging to the State under section 5 or 6 of Act No. 105 of the Public Acts of 1855, as amended, being Section 21.145 and 21.146 of the Michigan Compiled Laws.
- c. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
- d. The United States government or federal agency obligations repurchase agreements.
- e. Bankers acceptances of United States banks.
- f. Mutual funds composed of investment vehicles, which are legal for direct investment by local units of government in Michigan.

Michigan Compiled Laws allow for collateralization of government deposits, if the assets for pledging are acceptable to the State Treasurer under Section 3 of 1855 PA 105, MCL 21.143, to secure deposits of State surplus funds, securities issued by the Federal Loan Mortgage Corporation, Federal National Mortgage Association, or Government National Mortgage Association.

G) PREPAID COSTS

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

MONTROSE COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H) CAPITAL ASSETS

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) using a \$5,000 capitalization threshold and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The School District does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an assets life are not. Interest incurred during the construction of capital assets is also capitalized.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Governmental Activities</u> <u>Estimated Lives</u>
Buildings and Improvements	20 – 50 years
Furniture and Equipment	5 – 20 years
Vehicles and Buses	5 – 10 years

I) INTERFUND BALANCES

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as “interfund receivables/payables.” These amounts are eliminated in the governmental activities columns of the statement of net position.

J) UNEARNED REVENUE

The District reports unearned revenue on its governmental funds balance sheet. Unearned revenues arise when potential revenue does not meet both the “measurable” and “available” criteria for recognition in the current period. Unearned revenues also arise when the District receives resources before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the government has a legal claim to the resources, the liability for unearned revenue is removed from the combined balance sheet and revenue is recognized.

K) COMPENSATED ABSENCES

The liability for compensated absences reported in the government-wide statements consists of earned but unused accumulated vacation, sick leave, and severance benefits. 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, in which leave amounts are included both for employees who are currently eligible to receive termination payments and for other employees who are expected to become eligible in the future to receive such payments upon termination.

MONTROSE COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

L) LONG-TERM OBLIGATIONS

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net position. Bond premiums and discounts, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as debt service expenditures.

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 on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

M) DEFERRED OUTFLOWS/INFLOWS OF RESOURCES

Deferred Outflows

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The District has three items that qualify for reporting in this category. They are the deferred charge on refunding, pension and other postemployment benefits related items reported in the government-wide statement of net position. A deferred charge on refunding results from 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. A deferred outflow is recognized for pension and other postemployment benefit related items. These amounts are expensed in the plan year in which they apply.

Deferred Inflows

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The District has three items that qualifies for reporting in this category. The first is restricted state aid funding deferred to offset deferred outflows related to section 147c pension and other postemployment benefit contributions subsequent to the measurement period. The second and third items are future resources yet to be recognized in relation to the pension and other postemployment benefit actuarial calculation. These future resources arise from differences in the estimates used by the actuary to calculate the pension and other postemployment benefit liability and the actual results. The amounts are amortized over a period determined by the actuary.

N) DEFINED BENEFIT PLAN

For purposes of measuring the net pension and other postemployment benefit liability, deferred outflows of resources and deferred inflows of resources related to pensions and other postemployment benefits, and pension and other postemployment benefits expense, information about the fiduciary net position of the Michigan Public Employees Retirement System (MPERS) and additions to/deductions from MPERS fiduciary net position have been determined on the same basis as they are reported by MPERS. 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.

MONTROSE COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

O) NET POSITION FLOW ASSUMPTION

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

P) FUND BALANCE FLOW ASSUMPTION

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

Q) FUND BALANCE POLICIES

Fund balances for each of the District's governmental funds are displayed in the following classifications depicting the relative strength of the spending constraints placed on the purposes for which resources can be used:

- * Nonspendable fund balance - amounts that cannot be spent because they are either not in a spendable form (such as inventories and prepaid amounts) or are legally or contractually required to be maintained intact.
- * Restricted fund balance - amounts that can be spent only for specific purposes because of constraints imposed by external providers (such as grantors, bondholders, and higher levels of government), or imposed by constitutional provisions or enabling legislation. The District's Debt Retirement Fund and Food Service balances are considered restricted.
- * Committed fund balance - amounts that have been formally set aside by specific purposes. Commitments are made and can be rescinded only via resolution of the Board of Education.
- * Assigned fund balance - amounts the District intends to use for specific purposes that do not meet the criteria to be classified as restricted or committed. The intent is expressed by the Board of Education.
- * Unassigned fund balance - amounts that are available for any purpose; these amounts can be reported only in the District's General Fund.

In the general fund, the goal of the District shall be to maintain a minimum unassigned fund balance of no less than 5% of the preceding year's expenditures.

MONTROSE COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

R) REVENUE

The State of Michigan utilizes a foundation allowance funding approach, which provides for a specific annual amount of revenue per student based on a statewide formula. The foundation allowance is funded from a combination of state and local sources. The School Aid Act and the School Code of Michigan primarily govern revenues from state sources. The state portion of the foundation is provided from the state's School Aid Fund and is recognized as revenue in accordance with state law.

Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. The District levies its property taxes on December 1 and various municipalities collect its property taxes and remit them to the District through February. The delinquent real property taxes of the District are purchased by the County, and delinquent personal property taxes continue to be collected by the municipalities and recorded as revenue as they are collected. The county sells tax notes, the proceeds of which have been used to pay the District for these delinquent real property taxes. These delinquent real property taxes have been recorded as revenue in the current year.

S) USE OF ESTIMATES

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

T) MICHIGAN PUBLIC SCHOOL ACCOUNTING MANUAL

The accompanying financial statements have been prepared on a basis substantially consistent with the Michigan Public School Accounting Manual (Bulletin 1022), which outlines the accounting procedures and policies for school districts required by the Michigan State Board of Education.

U) BUDGETARY INFORMATION

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general fund and special revenue fund. The capital projects fund is appropriated on a project-length basis. Other funds do not have appropriated budgets.

Appropriations in all budgeted funds lapse at the end of the fiscal year even if they have related encumbrances. Encumbrances are commitments related to unperformed (executor) contracts for goods or services (i.e., purchase orders, contracts, and commitments). The District does not utilize encumbrance accounting.

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
2. Public hearings are conducted to obtain taxpayer comments.

MONTROSE COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

U) BUDGETARY INFORMATION (Continued)

3. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (1968 PA 2). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, in the general fund are noted in the required supplementary information section.
4. Transfers may be made for budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the School Board.
5. The budget was amended during the year with supplemental appropriations, the last one approved prior to year-end June 30, 2020. The District does not consider these amendments to be significant.

2) DEPOSITS AND INVESTMENTS

As of June 30, 2020, the District had no investments.

As of June 30, 2020 the District had deposits and investments subject to the following risk:

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of June 30, 2020, \$4,266,059 of the District's bank balance of \$4,865,707 was exposed to custodial credit risk because it was uninsured and uncollateralized. The carrying value on the books for deposits at the end of the year was \$4,793,182.

Custodial credit risk – investments. For an investment, this 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.

The District will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the District will do business.

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

Concentration of credit risk. The District will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Foreign currency risk. The District is not authorized to invest in investments which have this type of risk.

MONTROSE COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS

2) DEPOSITS AND INVESTMENTS (Continued)

Fair value measurement. The District is required to disclose amounts within a framework established for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described as follows:

Level 1: Quoted prices in active markets for identical securities.

Level 2: Prices determined using other significant observable inputs. Observable inputs are inputs that other market participants may use in pricing a security. These may include prices for similar securities, interest rates, prepayment speeds, credit risk and others.

Level 3: Prices determined using significant unobservable inputs. In situations where quoted prices or observable inputs are unavailable or deemed less relevant, unobservable inputs may be used. Unobservable inputs reflect the District's own assumptions about the factors market participants would use in pricing an investment and would be based on the best information available.

The asset or liability's fair measurement level with the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The District does not have any investments subject to the fair value measurement.

3) RECEIVABLES – DUE FROM OTHER GOVERNMENTAL UNITS

Receivables at June 30, 2020, consist of taxes, accounts (fees), intergovernmental grants and interest. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds.

A summary of the principal items of intergovernmental receivables (due from other governmental units) follows:

<u>GOVERNMENTAL ACTIVITIES</u>	<u>AMOUNT</u>
State Aid	\$ 2,196,158
Federal Grants	294,689
Other	<u>130,204</u>
 <u>TOTAL</u>	 <u>\$ 2,621,051</u>

MONTROSE COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS

4) CAPITAL ASSETS

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>
<u>Assets Not Being Depreciated</u>				
Land	\$49,925	\$0	\$0	\$49,925
<u>Capital Assets Being Depreciated</u>				
Buildings and Improvements	26,378,102	217,476	0	26,595,578
Furniture and Equipment	4,661,716	99,622	50,827	4,710,511
Vehicles and Buses	122,354	46,500	0	168,854
Total Capital Assets Being Depreciated	<u>\$31,162,172</u>	<u>\$363,598</u>	<u>\$50,827</u>	<u>\$31,474,943</u>
<u>Less: Accumulated Depreciation</u>				
Buildings and Improvements	(11,412,226)	(475,675)	0	(11,887,901)
Furniture and Equipment	(3,634,872)	(111,419)	(50,827)	(3,695,464)
Vehicles and Buses	(44,866)	(9,087)	0	(53,953)
Total Accumulated Depreciation	<u>(\$15,091,964)</u>	<u>(\$596,181)</u>	<u>(\$50,827)</u>	<u>(\$15,637,318)</u>
Net Capital Assets Being Depreciated	<u>\$16,070,208</u>	<u>(\$232,583)</u>	<u>\$0</u>	<u>\$15,837,625</u>
<u>NET CAPITAL ASSETS</u>	<u>\$16,120,133</u>	<u>(\$232,583)</u>	<u>\$0</u>	<u>\$15,887,550</u>

Depreciation expense was unallocated on the Statement of Activities as the District considers all fixed assets to have mixed use.

Net investment in capital assets consists of the following:

Capital Assets	\$ 31,524,868
Less: Accumulated Depreciation	(15,637,318)
Add: Deferred Charge on Refunding	75,575
Less: Related Long-Term Liabilities	<u>(17,442,585)</u>
<u>NET INVESTMENT IN CAPITAL ASSETS</u>	<u>\$ (1,479,460)</u>

5) SHORT-TERM DEBT

The District has various options for short-term financing including tax anticipation notes, state aid anticipation notes and lines of credit. The District entered into no short-term financing arrangements during the fiscal year ended June 30, 2020.

	<u>Balance Beginning</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance Ending</u>
State Aid Note	<u>\$205,000</u>	<u>\$0</u>	<u>\$205,000</u>	<u>\$0</u>

MONTROSE COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS

6) GENERAL LONG-TERM DEBT

The following is a summary of long-term obligations for the District for the year ended June 30, 2020:

<u>Governmental Activities:</u>	Balance			Balance	Amount Due
	Beginning	Additions	Deductions	Ending	in One Year
General Obligation Bonds	\$12,960,231	\$7,644,760	\$3,162,406	\$17,442,585	\$1,391,006
Notes from Direct Borrowings and Direct Placements	5,426,893	613,232	5,577,000	463,125	0
Compensated Absences	180,812	49,512	0	230,324	0
<u>Total Governmental Activities</u>	<u>\$18,567,936</u>	<u>\$8,307,504</u>	<u>\$8,739,406</u>	<u>\$18,136,034</u>	<u>\$1,391,006</u>

GENERAL OBLIGATIONS BONDS

2001 School Building and Site Bonds - dated April 15, 1997, in the amount of \$7,925,000, bearing interest at rates varying from 6% to 6.2% per annum, matures in 2022. \$ 1,000,000

2011 School Building & Site Bonds Series A - dated May 17, 2011, in the amount of \$12,800,000 with interest rates ranging from 1.6% to 6.2% per annum, matures in 2026. These bonds were issued under the ARRA Construction funding program and the interest to be paid on the bonds will be subsidized by the US Treasury up to 5.43% for each interest payment. The total subsidy and resultant interest savings to the District is \$6,350,797 over the 15 year life of the bonds. 6,830,000

2011 School Building and Site Bonds Series B - dated May 17, 2011, in the amount of \$1,800,000 with an interest rates ranging from 5% to 5.50% per annum, matures in 2041. This bonds were advance refunded with the 2019 Refunding Bonds. 0

2015 Refunding Bonds – dated March 19, 2015, in the amount of \$2,020,000 with interest rates ranging from 2.25% to 3% per annum, matures in 2027. 2,020,000

2019 Refunding Bonds - dated December 19, 2019, in the amount of \$7,585,000, bearing interest at rates varying from 2.412% to 2.612% per annum, matures in 2030. The bonds were issued to refinance the Michigan School Bond Loan Fund and advance refund the 2011 School Building and Site Bonds Series B. As a result of the advance refunding, the District reduced its total debt service requirements by \$754,275, which resulted in an economic gain (difference between the present value of the debt service payment on the old and new debt) of \$420,917. 7,585,000

Bond Issuance Discount (31,915)

Bond Premium 39,500

TOTAL GENERAL OBLIGATION BONDS \$ 17,442,585

MONTROSE COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS

6) GENERAL LONG-TERM DEBT (Continued)

NOTES FROM DIRECT BORROWINGS AND DIRECT PLACEMENTS

Michigan School Bond Loan Fund - The School District has entered into a loan agreement with the Michigan School Bond Loan Fund to borrow monies over a period of years sufficient to extinguish the interest and principal requirements as they become due. The School is required to begin repaying the debt at the point where the School District's State Equalized Valuation times its levy will be in excess of its interest and principal requirements. The loan shall bear interest at the average interest rate computed to the nearest one-eighth of one percent, paid by the State on obligations issued pursuant to Section 16 of Article IX of the State Constitution of 1983. Interest of \$93,505 has been assessed for the year ended June 30, 2020, and is included in the amount owing the State at that date. The state may apply a default late charge on the note if the District does not make the repayments, or apply the default late charge if the District fails to levy the appropriate debt mills. The state may also withhold state aid payments if the District is in default.

\$ 463,125

COMPENSATED ABSENCES

Compensated absences include unused sick pay and vacation pay. Unused sick pay is calculated using the termination payoff rate for eligible employees times the number of unused days. Vacation payouts are computed using an average daily rate times the number of days.

230,324

TOTAL GENERAL LONG-TERM OBLIGATIONS

\$ 18,136,034

The District's outstanding notes from direct borrowings and direct placements related to governmental activities of \$463,125 contains provisions that in an event of default, either by (1) unable to make principal or interest payments (2) false or misrepresentation is made to the lender (3) become insolvent or make an assignment for the benefit of its creditors (4) if the lender at any time in good faith believes that the prospect of payment of any indebtedness is impaired. Upon the occurrence of any default event, the outstanding amounts, including accrued interest become immediately due and payable.

The annual requirements to amortize long-term obligations outstanding exclusive of employment benefit obligation payments as of June 30, 2020 are as follows:

	General Obligation Bonds		Notes from Direct Borrowings and Direct Placements		Total
	Principal	Interest	Principal	Interest	
June 30, 2021	\$1,391,006	\$723,490	\$0	\$0	\$2,114,496
June 30, 2022	1,421,006	641,870	0	0	2,062,876
June 30, 2023	1,466,006	549,956	0	0	2,015,962
June 30, 2024	1,491,006	478,562	0	0	1,969,568
June 30, 2025	2,041,091	403,632	0	0	2,444,723
June 30, 2026-2030	9,632,470	778,995	0	0	10,411,465
Thereafter	0	0	463,125	0	463,125
<u>TOTAL</u>	<u>\$17,442,585</u>	<u>\$3,576,505</u>	<u>\$463,125</u>	<u>\$0</u>	<u>\$21,482,215</u>

Interest expense (all funds) for the year ended June 30, 2020 was \$1,401,235.

MONTROSE COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS

7) OPERATING LEASE

- A) The District entered into a 3 year operating lease with CH&H Leasing, LLC for 11 buses. The lease commenced on June 12, 2018 and requires annual payments of \$138,509. The lease was extended and expires in June 2022. Expenditures under the operating lease were \$138,509 for the year ended June 30, 2020.
- B) The District entered into a 48 month operating lease with Konica for copiers and printers throughout the District. The lease commenced on April 1, 2019 and requires monthly payments of \$3,564. Expenditures under the operating lease were \$42,767 for the year ended June 30, 2020.

Future minimum payments are as follows:

<u>Year Ending</u>	<u>Amount</u>
June 30, 2021	\$181,276
June 30, 2022	177,326
June 30, 2023	<u>32,075</u>
 <u>TOTAL</u>	 <u><u>\$390,677</u></u>

8) INTERFUND ACTIVITY

Interfund balances at June 30, 2020 consisted of the following:

DUE FROM	
DUE TO	Cafeteria <u>Fund</u>
General Fund	<u><u>\$211,048</u></u>

These balances resulted 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 systems, and (3) payments between funds are made.

9) INTERFUND TRANSFERS

Interfund transfers for the year ended June 30, 2020, consisted of the following:

TRANFERS FROM				
TRANSFERS TO	<u>General Fund</u>	<u>Cafeteria Fund</u>	<u>Debt Retirement</u>	<u>TOTAL</u>
General Fund	\$0	\$45,000	\$0	\$45,000
Cafeteria Fund	885	0	0	885
Debt Retirement Fund	<u>0</u>	<u>0</u>	<u>22,134</u>	<u>22,134</u>
 <u>TOTAL</u>	 <u><u>\$885</u></u>	 <u><u>\$45,000</u></u>	 <u><u>\$22,134</u></u>	 <u><u>\$68,019</u></u>

Transfers are made to use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. Transfers were made from the Cafeteria fund to the General Fund for indirect costs. Transfers are made between debt funds for payments of principal and interest.

MONTROSE COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS

10) TAX ABATEMENTS

The District receives reduced property tax revenues as a result of Industrial Facilities Tax exemptions granted by cities and townships. Industrial facility exemptions are intended to promote construction of new industrial facilities, or to rehabilitate historical facilities. There were no property taxes abated.

The taxes abated for the general fund operating millage is considered by the State of Michigan when determining the District's section 22 funding of the State School Aid Act.

There are no significant abatements made by the District.

11) RESTRICTED NET POSITION

Restricted net position consists of the following:

Debt Retirement	\$99,648
Less: Accrued Interest	(120,492)
Sinking Capital Projects	<u>231,596</u>
 <u>TOTAL</u>	 <u><u>\$210,752</u></u>

12) DEFINED BENEFIT PLAN AND POST RETIREMENT BENEFITS

Plan Description

The Michigan Public School Employees' Retirement System (System or MPSERS) is a cost-sharing, multiple employer, state-wide, defined benefit public employee retirement plan governed by the State of Michigan (State) originally created under Public Act 136 of 1945, recodified and currently operating under the provisions of Public Act 300 of 1980, as amended. Section 25 of this act establishes the board's authority to promulgate or amend the provisions of the System. 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 on the ORS website at www.michigan.gov/orsschools.

Benefits Provided - Overall

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 percent to 1.50 percent. 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.

MONTROSE COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS

12) DEFINED BENEFIT PLAN AND POST RETIREMENT BENEFITS (Continued)

A DB 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.

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 Jan. 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 Sept. 3, 2012 or were on an approved professional services or military leave of absence on Sept. 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 Feb. 1, 2013.

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

Contributions

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

Employer contributions to the Pension & OPEB 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 Sept. 30, 2018 valuation will be amortized over a 20-year period beginning Oct. 1, 2018 and ending Sept. 30, 2038.

MONTROSE COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS

12) DEFINED BENEFIT PLAN AND POST RETIREMENT BENEFITS (Continued)

The schedule below summarizes pension contribution rates in effect for fiscal year ended September 30, 2019.

<u>Benefit Structure</u>	<u>Member</u>	<u>Employer</u>
Basic	0.0 – 4.0%	18.25%
Member Investment Plan	3.0 – 7.0%	18.25%
Pension Plus	3.0 – 6.4%	16.46%
Pension Plus 2	6.2%	19.59%
Defined Contribution	0.0%	13.39%

The schedule below summarizes OPEB contribution rates in effect for fiscal year ended September 30, 2019.

<u>Benefit Structure</u>	<u>Member</u>	<u>Employer</u>
Premium Subsidy	3.0%	7.93%
Personal Healthcare Fund (PHF)	0.00%	7.57%

The District's pension contributions for the year ended June 30, 2020 were equal to the required contribution total. Pension contributions were approximately \$2,145,000, with \$2,138,000 specifically for the Pension Defined Benefit Plan.

The District's OPEB contributions for the year ended June 30, 2020 were equal to the required contribution total. OPEB benefits were approximately \$614,000, with \$600,000 specifically for the OPEB Defined Benefit Plan.

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

Pension Liabilities

At June 30, 2020, *the District* reported a liability of \$26,395,100 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 0.079703 percent, which was *increase* of 0.0025 percent from its proportion measured as of September 30, 2018.

<u>MPSERS (Plan) Non-University Employers</u>	<u>September 30, 2019</u>	<u>September 30, 2018</u>
Total Pension Liability	\$83,442,507,212	\$79,863,694,444
Plan Fiduciary Net Position	50,325,869,388	49,801,889,205
Net Pension Liability	\$33,116,637,824	\$30,061,805,239
Proportionate Share	0.079703%	0.077234%
Net Pension Liability for the District	26,395,100	23,217,890

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

For the year ended September 30, 2019, the District recognized pension expense of \$4,472,532.

MONTROSE COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS

12) DEFINED BENEFIT PLAN AND POST RETIREMENT BENEFITS (Continued)

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

	<u>Deferred Outflows of Resources</u>	<u>Deferred (Inflows) of Resources</u>
Differences Between Actual and Expected Experience	\$118,311	(\$110,065)
Changes of Assumptions	5,168,179	0
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	0	(845,918)
Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	793,276	(105,736)
Employer Contributions Subsequent to the Measurement Date	<u>1,969,857</u>	<u>0</u>
<u>TOTAL</u>	<u>\$8,049,623</u>	<u>(\$1,061,719)</u>

Contributions subsequent to the measurement date 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 ending June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending Sept. 30,</u>	<u>Amount</u>
2020	\$1,961,365
2021	1,561,328
2022	1,071,218
2023	424,136

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

OPEB Liabilities

At June 30, 2020, the District reported a liability of \$5,695,852 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 0.079354 percent, which was an increase of 0.00075 percent from its proportion measured as of October 1, 2018.

<u>MPSERS (Plan) Non-University Employers</u>	<u>September 30, 2019</u>	<u>September 30, 2018</u>
Total Other Postemployment Benefits Liability	\$13,925,860,688	\$13,932,170,264
Plan Fiduciary Net Position	<u>6,748,112,668</u>	<u>5,983,218,473</u>
Net Other Postemployment Benefits Liability	\$7,177,748,020	\$7,948,951,791
Proportionate Share	0.079354%	0.07860%
Net Other Postemployment Benefits Liability for the District	5,695,852	6,248,229

For the year ending September 30, 2019, the District recognized OPEB expense of \$208,619.

MONTROSE COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS

12) DEFINED BENEFIT PLAN AND POST RETIREMENT BENEFITS (Continued)

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

	<u>Deferred Outflows of Resources</u>	<u>Deferred (Inflows) of Resources</u>
Differences Between Actual and Expected Experience	\$0	(\$2,089,969)
Changes of Assumptions	1,234,176	0
Net Difference Between Projected and Actual Earnings on OPEB Plan Investments	0	(99,054)
Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	245,190	(7,170)
Employer Contributions Subsequent to the Measurement Date	<u>525,465</u>	<u>0</u>
<u>TOTAL</u>	<u>\$2,004,831</u>	<u>(\$2,196,193)</u>

Contributions subsequent to the measurement date 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:

<u>Year Ending Sept. 30,</u>	<u>Amount</u>
2020	(\$202,237)
2021	(202,237)
2022	(152,850)
2023	(96,982)
2024	(62,521)

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.

Additional information as of the latest actuarial valuation follows:

Summary of Actuarial Assumptions

Valuation Date:	September 30, 2018
Actuarial Cost Method:	Entry Age, Normal
Wage Inflation Rate:	2.75%

MONTROSE COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS

12) DEFINED BENEFIT PLAN AND POST RETIREMENT BENEFITS (Continued)

Summary of Actuarial Assumptions (Continued)

Investment Rate of Return:	
- MIP and Basic Plans:	6.80%
- Pension Plus Plan:	6.80%
- Pension Plus 2 Plan:	6.00%
- OPEB	6.95%
Projected Salary Increases:	2.75 - 11.55%, including wage inflation at 2.75%
Cost-of-Living Pension 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 Healthy Annuitant Mortality Tables, scaled by 82% for males and 78% for females and adjusted for mortality improvements using projection scale MP-2017 from 2006.
- Retirees	
- Active Members:	P-2014 Male and Female Employee Annuitant Mortality Tables, scaled 100% and adjusted for mortality improvements using projection scale MP-2017 from 2006.

Other Assumptions OPEB

- Opt-Out Assumption	21% of eligible participants hired before July 1, 2008 and 30% of those hired after June 30, 2008 are assumed to opt out of the retiree health plan.
- Survivor Coverage	80% of male retirees and 67% of female retirees are assumed to have 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.

Notes:

- * 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 valuations beginning with the September 30, 2017 valuation. The total pension liability as of September 30, 2018, is based on the results of an actuarial valuation date of September 30, 2017, and rolled forward using generally accepted actuarial procedures, including the experience study.
- * Recognition period for liabilities is the average of the expected remaining service lives of all employees in years: [4.4977 for non-university employers]
- * 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 OPEB valuations beginning with the September 30, 2017 valuation. The total OPEB liability as of September 30, 2019, is 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.

MONTROSE COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS

12) DEFINED BENEFIT PLAN AND POST RETIREMENT BENEFITS (Continued)

Summary of Actuarial Assumptions (Continued)

- * *Recognition period for liabilities is the average of the expected remaining service lives of all employees in years: [5.7101 for non-university employers].*
- * *Recognition period for assets in years: 5.0000*
- * *Full actuarial assumptions are available in the 2019 MPSERS Comprehensive Annual Financial Report found on the ORS website at www.michigan.gov/orsschools.*

Long-Term Expected Return on 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:

Investment Category	Target Allocation*	Long-term Expected Real Rate of Return*
Domestic Equity Pools	28.0%	5.5%
Private Equity Pools	18.0%	8.6%
International Equity	16.0%	7.3%
Fixed Income Pools	10.5%	1.2%
Real Estate and Infrastructure Pools	10.0%	4.2%
Absolute Return Pools	15.5%	5.4%
Short Term Investment Pools	2.0%	0.8%
Total	100.0%	

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

Rate of Return

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

MONTROSE COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS

12) DEFINED BENEFIT PLAN AND POST RETIREMENT BENEFITS (Continued)

Discount Rate – Pension

A discount rate of 6.80% was used to measure the total pension liability (6.80% for the Pension Plus plan, 6.0% for the Pension Plus 2 plan, hybrid plans provided through non-university employers only). This discount rate was based on the long-term expected rate of return on pension plan investments of 6.80% (6.80% for the Pension Plus plan, 6.0% for the Pension Plus 2 plan). The projection of cash flows used to determine this discount rate assumed that plan member contributions will be made at the current contribution rate and that 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 plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Discount Rate – OPEB

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 OPEB plan investments of 6.95%. The projection of cash flows used to determine this discount rate assumed that plan member contributions will be made at the current contribution rate and that 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 OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

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, 6.0% 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 higher:

	Pension		
		Current Single Discount Rate Assumption	
	1% Decrease 5.8%/5.8%/5.0%	6.8%/6.8%/6.0%	1% Increase 7.8%/7.8%/7.0%
District's proportionate share of the net pension liability	\$34,315,318	\$26,395,100	\$19,828,966

* Discount rates listed in the following order: Basis and Member Investment Plan (MIP), Pension Plus, and Pension Plus 2. Non-university employers provide Basic, MIP, Pension Plus and Pension Plus 2 plans.

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 than the current rate:

	Other Postemployment Benefit		
		Discount Rate	
	1% Decrease 5.95%	6.95%	1% Increase 7.95%
District's proportionate share of the net other postemployment benefit liability	\$6,986,819	\$5,695,852	\$4,611,799

MONTROSE COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS

12) DEFINED BENEFIT PLAN AND POST RETIREMENT BENEFITS (Continued)

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

	Other Postemployment Benefit		
	Current		
	1% Decrease	Healthcare Cost Trend Rate	1% Increase
District proportionate share of the net other postemployment benefit liability	\$4,565,840	\$5,695,852	\$6,986,666

Pension and OPEB Plan Fiduciary Net Position

Detailed information about the pension or OPEB plan's fiduciary net position is available in the separately issued MPSERS CAFR, available on the ORS website at www.michigan.gov/orsschools.

Payable to the Pension and OPEB Plan

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

13) RISK MANAGEMENT

The District is exposed to various risks of loss in conducting its operations, from property and casualty theft, damage to various tort and liability claims and worker's compensation claims. The District limits its exposure to such claims through its participation in and payments of premiums to SET-SEG, Inc. Insurance Trust. This pool maintains a loss fund and is also required by the terms of the participation agreement to obtain insurance and reinsurance as necessary.

The terms of the participation agreement with the pool indicate that, should losses of the pool incurred in a given coverage period exceed the loss fund and the aggregate excess reinsurance, the fund may access its member districts on a pro-rata basis to cover excess losses. In past years the loss fund has exceeded the amount necessary to maintain prudent loss reserves, resulting in annual premium refunds to member districts. The District's management believes that participation in this pool provides sufficient coverage to protect the District from any significant adverse financial impact.

MONTROSE COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS

14) RESTATEMENT

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

Summary:

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

	<u>FUND BALANCES</u>	
	<u>Student/School Activity Fund</u>	<u>Governmental Activities</u>
Fund Balances as of July 1, 2019, as Previously Stated	\$350,291	\$4,818,700
Adoption of GASB statement No. 84	<u>(350,291)</u>	<u>350,291</u>
<u>FUND BALANCE AS OF JULY 1, 2019, AS RESTATED</u>	<u>\$0</u>	<u>\$5,168,991</u>

	<u>NET POSITION</u>	
	<u>Governmental Activities</u>	<u>Custodial Fund</u>
Net Position as of July 1, 2019, as Previously Stated	(\$21,984,912)	\$350,291
Adoption of GASB statement No. 84	<u>350,291</u>	<u>(350,291)</u>
<u>NET POSITION AS OF JULY 1, 2019, AS RESTATED</u>	<u>(\$21,634,621)</u>	<u>\$0</u>

15) COVID

As result of the global coronavirus pandemic of 2020, the financial picture for Michigan School Districts has seen an unanticipated change. The duration and full effects of the outbreak are currently unknown, as the local and global picture continues to change frequently. To reduce the chance of spreading COVID-19; in March 2020, public schools were closed for the remainder of the 2019-2020 school year. As a result of the pandemic, the State of Michigan encountered a revenue shortfall resulting in a revenue reduction for Districts of \$175 per pupil which reduced the state aid payment in August of 2020. Subsequent to year end, multiple new revenue sources were approved including Public Act 123 of 2020 which provides Districts an approximate 12.32 per pupil and Public Act 146 of 2020 which provides Districts \$350 per pupil. These new revenue streams approved subsequent to June 30, 2020 will be recognized in the fiscal year ended June 30, 2021 in accordance with reporting criteria established by the Governmental Accounting Standards Board. Additionally, the "Return to Learn" legislation passed subsequent to year end which modifies the per pupil foundation allowance calculation per pupil and allows flexibilities in the days and attendance requirements for Districts. Currently, it is not possible to estimate the extent of any potential impacts or to determine if any changes in fair values are other than temporary in nature. Accordingly, no adjustments to the financial statements were made as a result of this subsequent event.

MONTROSE COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS

16) UPCOMING ACCOUNTING PRONOUNCEMENTS

Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases*, was issued by the GASB in June 2017 and will be effective for the District's 2022 year end. The objective of this Statement is to increase the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use the underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

REQUIRED SUPPLEMENTARY
INFORMATION

MONTROSE COMMUNITY SCHOOLS
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2020

	<u>Budgeted Amounts</u>			<u>Variance With Final Budget</u>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
<u>REVENUES</u>				
Local Sources	\$911,001	\$983,027	\$990,731	\$7,704
State Sources	12,900,518	12,835,096	13,543,215	708,119
Federal Sources	794,017	844,389	775,148	(69,241)
Total Revenues	<u>\$14,605,536</u>	<u>\$14,662,512</u>	<u>\$15,309,094</u>	<u>\$646,582</u>
<u>EXPENDITURES</u>				
Instruction	9,449,372	9,447,540	9,325,340	122,200
Student Services	626,880	638,977	626,427	12,550
Instructional Support	520,990	622,967	515,884	107,083
General Administration	358,464	349,491	325,703	23,788
School Administration	1,112,090	1,058,407	1,055,601	2,806
Business Administration	397,456	344,473	338,445	6,028
Operation & Maintenance of Plant	1,540,377	1,522,098	1,444,150	77,948
Transportation	604,284	582,815	545,851	36,964
Support Services - Other	444,081	496,547	439,068	57,479
Community Services	105,220	95,456	96,255	(799)
Total Expenditures	<u>\$15,159,214</u>	<u>\$15,158,771</u>	<u>\$14,712,724</u>	<u>\$446,047</u>
Excess of Revenues Over Expenditures	(\$553,678)	(\$496,259)	\$596,370	\$1,092,629
<u>OTHER FINANCING SOURCES (USES)</u>				
Net Change in Fund Balance	<u>118,962</u>	<u>29,056</u>	<u>59,909</u>	<u>30,853</u>
	(\$434,716)	(\$467,203)	\$656,279	\$1,123,482
<u>FUND BALANCE - BEGINNING OF YEAR</u>			<u>4,293,257</u>	
<u>FUND BALANCE - END OF YEAR</u>			<u>\$4,949,536</u>	

MONTROSE COMMUNITY SCHOOLS
BUDGETARY COMPARISON SCHEDULE
CAFETERIA FUND
YEAR ENDED JUNE 30, 2020

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance With Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<u>REVENUES</u>				
Local Sources	\$201,105	\$146,182	\$147,264	\$1,082
State Sources	31,363	33,136	33,135	(1)
Federal Sources	661,070	695,673	696,399	726
Total Revenues	<u>\$893,538</u>	<u>\$874,991</u>	<u>\$876,798</u>	<u>\$1,807</u>
<u>EXPENDITURES</u>				
Food Service	900,889	852,917	851,489	1,428
Excess of Revenues Over Expenditures	(\$7,351)	\$22,074	\$25,309	\$3,235
<u>OTHER FINANCING SOURCES (USES)</u>				
Net Change in Fund Balance	20,653	(49,215)	(44,115)	5,100
	<u>\$13,302</u>	<u>(\$27,141)</u>	<u>(\$18,806)</u>	<u>\$8,335</u>
<u>FUND BALANCE - BEGINNING OF YEAR</u>			<u>290,234</u>	
<u>FUND BALANCE - END OF YEAR</u>			<u>\$271,428</u>	

MONTROSE COMMUNITY SCHOOLS
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE REPORTING UNIT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
MICHIGAN PUBLIC SCHOOL EMPLOYEES RETIREMENT PLAN
LAST 10 FISCAL YEARS (AMOUNTS WERE DETERMINED AS OF 9/30 OF EACH FISCAL YEAR)

	2019	2018	2017	2016	2015	2014
Reporting unit's proportion of net pension liability (%)	0.07970%	0.07723%	0.07549%	0.07658%	0.07430%	0.07093%
Reporting unit's proportionate share of net pension liability	\$26,395,100	\$23,217,890	\$19,563,793	\$19,105,549	\$18,148,195	\$15,622,729
Reporting unit's covered-employee payroll	\$6,893,862	\$6,669,860	\$6,214,146	\$6,495,866	\$6,157,111	\$6,011,383
Reporting unit's proportionate share of net pension liability as a percentage of its covered-employee payroll	382.88%	348.10%	314.83%	294.12%	294.75%	259.89%
Plan fiduciary net position as a percentage of total pension liability	60.31%	62.36%	64.21%	63.27%	63.17%	66.20%

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

MONTROSE COMMUNITY SCHOOLS
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE REPORTING UNIT'S CONTRIBUTIONS - PENSION
MICHIGAN PUBLIC SCHOOL EMPLOYEES RETIREMENT PLAN
LAST 10 FISCAL YEARS (AMOUNTS WERE DETERMINED AS OF 6/30 OF EACH FISCAL YEAR)

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Statutorily required contributions	\$2,117,353	\$2,103,094	\$1,770,743	\$1,755,626	\$1,433,375	\$1,101,538
Contributions in relation to statutorily required contributions	<u>2,117,353</u>	<u>2,103,094</u>	<u>1,770,743</u>	<u>1,755,626</u>	<u>1,433,375</u>	<u>1,101,538</u>
Contribution deficiency (excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Reporting unit's covered-employee payroll	\$6,881,896	\$6,880,478	\$6,537,979	\$6,106,731	\$6,157,111	\$6,011,383
Contributions as a percentage of covered-employee payroll	30.77%	30.57%	27.08%	28.75%	23.28%	18.32%

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

MONTROSE COMMUNITY SCHOOLS
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE REPORTING UNIT'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY
MICHIGAN PUBLIC SCHOOL EMPLOYEES RETIREMENT PLAN
LAST 10 FISCAL YEARS (AMOUNTS WERE DETERMINED AS OF 9/30 OF EACH FISCAL YEAR)

	2019	2018	2017
Reporting unit's proportion of net OPEB liability (%)	0.07935%	0.07860%	0.07538%
Reporting unit's proportionate share of net OPEB liability	\$5,695,852	\$6,248,229	\$6,675,296
Reporting unit's covered-employee payroll	\$6,893,862	\$6,669,860	\$6,214,146
Reporting unit's proportionate share of net OPEB liability as a percentage of its covered-employee payroll	82.62%	93.68%	107.42%
Plan fiduciary net position as a percentage of total OPEB liability (Non-university employers)	48.46%	42.95%	36.39%

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

MONTROSE COMMUNITY SCHOOLS
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE REPORTING UNIT'S CONTRIBUTIONS - OPEB
MICHIGAN PUBLIC SCHOOL EMPLOYEES RETIREMENT PLAN
LAST 10 FISCAL YEARS (AMOUNTS WERE DETERMINED AS OF 6/30 OF EACH FISCAL YEAR)

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Statutorily required contributions	\$544,853	\$510,219	\$586,869
Contributions in relation to statutorily required contributions	<u>544,853</u>	<u>510,219</u>	<u>586,869</u>
Contribution deficiency (excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Reporting unit's covered-employee payroll	\$6,881,896	\$6,880,478	\$6,537,979
Contributions as a percentage of covered-employee payroll	7.92%	7.42%	8.98%

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

MONTROSE COMMUNITY SCHOOLS
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY INFORMATION

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General Fund and Special Revenue Fund (Food Service). All annual appropriations lapse at fiscal year end.

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the function level. State law requires the School District to have its budget in place by July 1. Expenditures in excess of amounts budgeted are a violation of Michigan law. State law permits districts to amend their budgets during the year. During the year, the budget was amended in a legally permissible manner. The School District increased/decreased budgeted amounts during the year in response to changes in funding and related expenditures.

Amounts encumbered for purchase orders, contracts, etc. are not tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services rendered.

During the year, Montrose Community Schools did not have any significant expenditure budget variances.

PENSION

Benefit changes - there were no changes of benefit terms in 2019.

Changes of assumptions - the assumption changes for 2019 were:

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

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

OPEB

Benefit changes - there were no changes of benefit terms in 2019.

Changes of assumptions - the assumption changes for 2019 were:

Discount rate for decreased to 6.95% from 7.15%.

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

ADDITIONAL SUPPLEMENTARY
INFORMATION

MONTROSE COMMUNITY SCHOOLS
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
JUNE 30, 2020

	<u>Student Activities</u>	<u>Debt Funds</u>	<u>Sinking Capital Projects Fund</u>	<u>Total Non-Major Governmental Funds</u>
<u>ASSETS</u>				
Cash and Cash Equivalents	\$336,321	\$95,395	\$231,596	\$663,312
Receivables:				
Accounts Receivable	<u>75</u>	<u>0</u>	<u>0</u>	<u>75</u>
<u>TOTAL ASSETS</u>	<u>\$336,396</u>	<u>\$95,395</u>	<u>\$231,596</u>	<u>\$663,387</u>
<u>FUND BALANCE</u>				
Restricted				
Debt Retirement	\$0	\$95,395	\$0	\$95,395
Capital Projects	0	0	231,596	231,596
Committed				
Student Activities	<u>336,396</u>	<u>0</u>	<u>0</u>	<u>336,396</u>
<u>TOTAL FUND BALANCE</u>	<u>\$336,396</u>	<u>\$95,395</u>	<u>\$231,596</u>	<u>\$663,387</u>

MONTROSE COMMUNITY SCHOOLS
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2020

	Student Activities	Debt Funds	Sinking Capital Projects Fund	Total
<u>REVENUES</u>				
Local Sources	\$290,413	\$1,128,672	\$168,069	\$1,587,154
State Sources	0	4,754	707	5,461
Federal Sources	0	392,049	0	392,049
Total Revenues	<u>\$290,413</u>	<u>\$1,525,475</u>	<u>\$168,776</u>	<u>\$1,984,664</u>
<u>OTHER FINANCING SOURCES</u>				
Bond Proceeds	0	476,119	0	476,119
Total Revenues & Other Financing Sources	<u>\$290,413</u>	<u>\$2,001,594</u>	<u>\$168,776</u>	<u>\$2,460,783</u>
<u>EXPENDITURES</u>				
Student Activities	304,308	0	0	304,308
Debt Retirement	0	1,970,228	0	1,970,228
Capital Projects	0	0	82,403	82,403
Total Expenditures	<u>\$304,308</u>	<u>\$1,970,228</u>	<u>\$82,403</u>	<u>\$2,356,939</u>
<u>OTHER FINANCING USES</u>				
Transfers to Other Funds	0	22,134	0	22,134
Total Expenditures and Other Financing Uses	<u>\$304,308</u>	<u>\$1,992,362</u>	<u>\$82,403</u>	<u>\$2,379,073</u>
Net Change in Fund Balance	(\$13,895)	\$9,232	\$86,373	\$81,710
<u>FUND BALANCE - BEGINNING OF YEAR - AS RESTATED</u>				
	<u>350,291</u>	<u>86,163</u>	<u>145,223</u>	<u>581,677</u>
<u>FUND BALANCE - END OF YEAR</u>				
	<u>\$336,396</u>	<u>\$95,395</u>	<u>\$231,596</u>	<u>\$663,387</u>

MONTROSE COMMUNITY SCHOOLS
COMBINING BALANCE SHEET
DEBT RETIREMENT FUNDS
JUNE 30, 2020

	1997/2005 Debt	2011A Debt	2015 Debt	Total
<u>ASSETS</u>				
Cash and Cash Equivalents	\$38,954	\$54,158	\$2,283	\$95,395
<u>TOTAL ASSETS</u>	<u>\$38,954</u>	<u>\$54,158</u>	<u>\$2,283</u>	<u>\$95,395</u>
<u>FUND BALANCES</u>				
Restricted Debt Retirement	\$38,954	\$54,158	\$2,283	\$95,395

MONTROSE COMMUNITY SCHOOLS
COMBINING BALANCE SHEET
DEBT RETIREMENT FUNDS
YEAR ENDED JUNE 30, 2020

	1997/2005	2011A	2015	Total After
	Debt	Debt	Debt	Interfund Eliminations
<u>REVENUES</u>				
Local Sources	\$459,145	\$642,803	\$26,724	\$1,128,672
State Sources	1,934	2,707	113	4,754
Federal Sources	0	392,049	0	392,049
Total Revenues	<u>\$461,079</u>	<u>\$1,037,559</u>	<u>\$26,837</u>	<u>\$1,525,475</u>
<u>OTHER FINANCING SOURCES</u>				
Bond Proceeds	123,375	322,122	30,622	476,119
Transfers from Other Funds	10,208	0	0	0
Total Other Financing Sources	<u>\$133,583</u>	<u>\$322,122</u>	<u>\$30,622</u>	<u>\$476,119</u>
Total Revenues & Other Financing Sources	<u>\$594,662</u>	<u>\$1,359,681</u>	<u>\$57,459</u>	<u>\$2,001,594</u>
<u>EXPENDITURES</u>				
Principal	500,000	855,000	0	1,355,000
Interest	90,000	466,640	56,738	613,378
Other	750	600	500	1,850
Total Expenditures	<u>\$590,750</u>	<u>\$1,322,240</u>	<u>\$57,238</u>	<u>\$1,970,228</u>
<u>OTHER FINANCING USES</u>				
Transfers to Other Funds	0	32,342	0	22,134
Total Expenditures and Other Financing Uses	<u>\$590,750</u>	<u>\$1,354,582</u>	<u>\$57,238</u>	<u>\$1,992,362</u>
Net Change in Fund Balance	<u>\$3,912</u>	<u>\$5,099</u>	<u>\$221</u>	<u>\$9,232</u>
<u>FUND BALANCE - BEGINNING</u>				
<u>OF YEAR</u>	<u>35,042</u>	<u>49,059</u>	<u>2,062</u>	<u>86,163</u>
<u>FUND BALANCE - END OF YEAR</u>				
	<u>\$38,954</u>	<u>\$54,158</u>	<u>\$2,283</u>	<u>\$95,395</u>

MONTROSE COMMUNITY SCHOOLS
SCHEDULE OF BOND PRINCIPAL AND INTEREST REQUIREMENTS
JUNE 30, 2020

DATE OF ISSUE - April 15, 1997

Original amount of issue - \$7,925,000

2001 SCHOOL BUILDING AND SITE BONDS

<u>PAYMENT DATE</u>	<u>PRINCIPAL REQUIREMENT</u>	<u>NOVEMBER INTEREST REQUIREMENT</u>	<u>MAY INTEREST REQUIREMENT</u>	<u>TOTAL PAYMENT</u>
2021	\$500,000	\$30,000	\$30,000	\$560,000
2022	500,000	15,000	15,000	530,000
<u>TOTAL</u>	<u>\$1,000,000</u>	<u>\$45,000</u>	<u>\$45,000</u>	<u>\$1,090,000</u>

DATE OF ISSUE - May 17, 2011

Original amount of issue - \$12,800,000

2011 SCHOOL BUILDING & SITE BONDS - SERIES A

<u>PAYMENT DATE</u>	<u>PRINCIPAL REQUIREMENT</u>	<u>NOVEMBER INTEREST REQUIREMENT</u>	<u>MAY INTEREST REQUIREMENT</u>	<u>TOTAL PAYMENT</u>
2021	\$890,000	\$208,525	\$208,525	\$1,307,050
2022	920,000	182,715	182,715	1,285,430
2023	950,000	154,655	154,655	1,259,310
2024	980,000	125,680	125,680	1,231,360
2025	1,540,000	95,790	95,790	1,731,580
2026	1,550,000	48,050	48,050	1,646,100
<u>TOTAL</u>	<u>\$6,830,000</u>	<u>\$815,415</u>	<u>\$815,415</u>	<u>\$8,460,830</u>

MONTROSE COMMUNITY SCHOOLS
SCHEDULE OF BOND PRINCIPAL AND INTEREST REQUIREMENTS
JUNE 30, 2020

DATE OF ISSUE - March 19, 2015

Original amount of issue - \$2,020,000

2015 REFUNDING BONDS

<u>PAYMENT DATE</u>	<u>PRINCIPAL REQUIREMENT</u>	<u>NOVEMBER INTEREST REQUIREMENT</u>	<u>MAY INTEREST REQUIREMENT</u>	<u>TOTAL PAYMENT</u>
2021	\$0	\$28,369	\$28,369	\$56,738
2022	0	28,369	28,369	56,738
2023	515,000	22,575	28,369	565,944
2024	510,000	14,925	22,575	547,500
2025	500,000	7,425	14,925	522,350
2026	495,000	0	7,425	502,425
<u>TOTAL</u>	<u>\$2,020,000</u>	<u>\$101,663</u>	<u>\$130,032</u>	<u>\$2,251,695</u>

DATE OF ISSUE - December 19, 2019

Original amount of issue - \$7,585,000

2019 REFUNDING BONDS

<u>PAYMENT DATE</u>	<u>PRINCIPAL REQUIREMENT</u>	<u>NOVEMBER INTEREST REQUIREMENT</u>	<u>MAY INTEREST REQUIREMENT</u>	<u>TOTAL PAYMENT</u>
2021	\$0	\$94,851	\$94,851	\$189,702
2022	0	94,851	94,851	189,702
2023	0	94,851	94,851	189,702
2024	0	94,851	94,851	189,702
2025	0	94,851	94,851	189,702
2026	0	94,851	94,851	189,702
2027	1,810,000	94,851	94,851	1,999,702
2028	1,865,000	73,023	73,023	2,011,046
2029	2,000,000	50,065	50,065	2,100,130
2030	1,910,000	24,945	24,945	1,959,890
<u>TOTAL</u>	<u>\$7,585,000</u>	<u>\$811,990</u>	<u>\$811,990</u>	<u>\$9,208,980</u>

MONTROSE COMMUNITY SCHOOLS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2020

Federal Grantor/ Pass Through Grantor/ Program Title	Federal CFDA Number	Pass - Through Project Number	Approved Grant Award Amount	Accrued (Unearned) Revenue July 1, 2019	Prior Year Expenditures	Current Year Expenditures	Adjustments Prior Years	Current Year Cash/ Payments In Kind Received	Accrued (Unearned) Revenue June 30, 2020
<u>U.S. DEPARTMENT OF EDUCATION</u>									
Passed Through Michigan Department of Education:									
Title I Grants to Local Educational Agencies:	84.010								
Title I Regular (18-19)		191530-1819	\$276,193	\$59,189	\$259,433	\$0	\$0	\$59,189	\$0
Title I Regular (19-20)		201530-1920	270,560	0	0	264,271	0	206,695	57,576
Total Title I			\$546,753	\$59,189	\$259,433	\$264,271	\$0	\$265,884	\$57,576
Rural Education - Title V	84.358								
Title V Part B (19-20)		200660-1920	31,130	0	0	21,838	0	8,019	13,819
English Language Acquisition Grant - Title III	84.365								
Title III (18-19)		190570-1819	279	232	232	0	0	232	0
Title III (19-20)		200570-1920	217	0	0	184	0	184	0
Total English Language Acquisition Grant - Title III			\$496	\$232	\$232	\$184	\$0	\$416	\$0
Teacher/Principal Training and Recruiting	84.367								
Improving Teacher Quality (18-19)		190520-1819	109,759	941	65,101	6,872	0	7,813	0
Improving Teacher Quality (19-20)		200520-1920	82,739	0	0	28,189	0	20,812	7,377
Total Teacher/Principal Training and Recruiting			\$192,498	\$941	\$65,101	\$35,061	\$0	\$28,625	\$7,377
Student Support & Academic Enrichment - Title IV	84.424								
Title IV Part A (19-20)		200750-1920	25,507	0	0	25,507	0	22,817	2,690
Total Passed Through Michigan Department of Education			\$796,384	\$60,362	\$324,766	\$346,861	\$0	\$325,761	\$81,462
Passed Through Genesee Intermediate School District:									
Special Education - Grants to States:	84.027								
IDEA Flowthrough (18-19)		190450-1819	377,438	120,196	361,384	16,054	0	136,250	0
IDEA Flowthrough (19-20)		200450-1920	387,561	0	0	387,561	0	243,320	144,241
Total IDEA Flowthrough			\$764,999	\$120,196	\$361,384	\$403,615	\$0	\$379,570	\$144,241
Special Education - Preschool	84.173								
Special Education - Preschool (18-19)		190460-1819	9,399	2,484	9,399	0	0	2,484	0
Special Education - Preschool (19-20)		20060-1920	12,941	0	0	11,822	0	7,371	4,451
Total Special Education - Preschool			\$22,340	\$2,484	\$9,399	\$11,822	\$0	\$9,855	\$4,451
Total Special Education Cluster			\$787,339	\$122,680	\$370,783	\$415,437	\$0	\$389,425	\$148,692

MONTROSE COMMUNITY SCHOOLS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2020

Federal Grantor/ Pass Through Grantor/ Program Title	Federal CFDA Number	Pass - Through Project Number	Approved Grant Award Amount	Accrued (Unearned) Revenue July 1, 2019	Prior Year Expenditures	Current Year Expenditures	Adjustments Prior Years	Current Year Cash/ Payments In Kind Received	Accrued (Unearned) Revenue June 30, 2020
<u>U.S. DEPARTMENT OF EDUCATION</u> (Continued)									
Vocational Education	84.048								
Perkins (18-19)		193520-1912-15	\$28,798	\$705	\$28,214	\$0	\$0	\$705	\$0
Perkins (19-20)		203520-2012-15	10,448	0	0	9,536	0	2,000	7,536
Total Vocational Education			<u>\$39,246</u>	<u>\$705</u>	<u>\$28,214</u>	<u>\$9,536</u>	<u>\$0</u>	<u>\$2,705</u>	<u>\$7,536</u>
Total Passed Through Genesee Intermediate School District			<u>\$826,585</u>	<u>\$123,385</u>	<u>\$398,997</u>	<u>\$424,973</u>	<u>\$0</u>	<u>\$392,130</u>	<u>\$156,228</u>
<u>TOTAL U.S. DEPARTMENT OF EDUCATION</u>			\$1,622,969	\$183,747	\$723,763	\$771,834	\$0	\$717,891	\$237,690
<u>U.S. DEPARTMENT OF AGRICULTURE</u>									
Passed Through Michigan Department of Education:									
Non-Cash Assistance									
Entitlement Commodities	10.555	N/A	42,704	0	0	42,704	0	42,704	0
Cash Assistance									
National School Lunch Program	10.555	N/A	315,234	0	0	278,974	0	278,974	0
Covid-19 Unanticipated School Closures (19-20)	10.555	N/A	156,397	0	0	192,657	0	156,397	36,260
Total			<u>\$514,335</u>	<u>\$0</u>	<u>\$0</u>	<u>\$514,335</u>	<u>\$0</u>	<u>\$478,075</u>	<u>\$36,260</u>
School Breakfast Program	10.553	N/A	161,444	0	0	161,444	0	140,705	20,739
Summer Feeding Program	10.559	N/A	16,626	1,794	0	16,626	0	18,420	0
Total Nutrition Cluster			<u>\$692,405</u>	<u>\$1,794</u>	<u>\$0</u>	<u>\$692,405</u>	<u>\$0</u>	<u>\$637,200</u>	<u>\$56,999</u>
Child Care Food Program	10.558	N/A	3,994	0	0	3,994		3,994	0
<u>TOTAL U.S. DEPARTMENT OF AGRICULTURE</u>			\$696,399	\$1,794	\$0	\$696,399	\$0	\$641,194	\$56,999
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>									
Passed Through Genesee Intermediate School District									
Medicaid Administrative Outreach	93.778	N/A	3,314	0	0	3,314	0	3,314	0
<u>TOTAL FEDERAL AWARDS</u>			<u>\$2,322,682</u>	<u>\$185,541</u>	<u>\$723,763</u>	<u>\$1,471,547</u>	<u>\$0</u>	<u>\$1,362,399</u>	<u>\$294,689</u>

MONTROSE COMMUNITY SCHOOLS
NOTES/RECONCILIATION TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2020

<u>FEDERAL REVENUE RECOGNIZED FOR THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS</u>	<u>\$1,471,547</u>
<u>FEDERAL REVENUE RECOGNIZED PER THE GENERAL PURPOSE FINANCIAL STATEMENTS</u>	
General Fund	\$775,148
School Service Fund	<u>696,399</u>
<u>TOTAL</u>	<u>\$1,471,547</u>

- 1) Basis of Presentation - The accompanying schedule of expenditures of federal awards includes the federal grant activity of Montrose Community Schools 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 (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* (the "Uniform Guidance"). Because the schedule presents only a selected portion of the operations of Montrose Community Schools, it is not intended to and does not present the financial position or changes in net position of Montrose Community Schools.

Management has utilized the Cash Management System (CMS) in preparing the Schedule of Expenditures of Federal Awards. All differences between the Schedule of Expenditures of Federal Awards and the Grant Auditor's Report have been reconciled in the attached reconciliation on page 45 of this report.

The District qualifies for low-risk auditee status.

- 2) Summary of Significant Accounting Policies - Expenditures reported on the schedule are reported on the modified accrual basis of accounting. Expenditures are recognized following the cost principles in the Uniform Guidance as applicable, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts (if any) 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.

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

- 3) Noncash Assistance - The value of noncash assistance received was determined in accordance with the provisions of the Uniform Guidance. The grantee received no noncash assistance during the year ended June 30, 2020 that is not included on the schedule of expenditures of federal awards.
- 4) The District did not pass-through any federal awards to subrecipients.
- 5) Federal revenue per the general purpose financial statements was \$1,863,596 for the year ended June 30, 2020. Included in federal revenue is \$392,049 of QZAB interest subsidies which are not part of the federal award schedule.

MONTROSE COMMUNITY SCHOOLS
RECONCILIATION OF "GRANT AUDITOR'S REPORT"
TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2020

Current Payments Per the Grant Auditor's Report		
Cash Management System		\$924,251
<u>Add:</u> Grants Passed Through the Genesee Intermediate School District		
Special Education - Grants to States (CFDA 84.027)	\$379,570	
Special Education - Preschool (CFDA 84.173)	9,855	
Perkins (CFDA 84.048)	2,705	
Medicaid Administrative Outreach (CFDA 93.778)	3,314	
Total Grants Passed Through Genesee Intermediate School District	395,444	
Entitlement and Bonus Commodities		42,704
<u>TOTAL CURRENT YEAR RECEIPTS PER SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS</u>		\$1,362,399



October 26, 2020

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

To the Board of Education of
Montrose Community Schools

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 Montrose Community Schools, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise Montrose Community Schools' basic financial statements, and have issued our report thereon dated October 26, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Montrose Community Schools' 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 Montrose Community Schools' internal control. Accordingly, we do not express an opinion on the effectiveness of the Montrose Community Schools' internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Montrose Community Schools' 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*.

Montrose Community Schools
Page 2
October 26, 2020

Purpose of this Report

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

Lewis & Knopf, P.C.

LEWIS & KNOPF, P.C.
CERTIFIED PUBLIC ACCOUNTANTS



October 26, 2020

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

To the Board of Education of
Montrose Community Schools

Report on Compliance for Each Major Federal Program

We have audited Montrose Community Schools' compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Montrose Community Schools' major federal programs for the year ended June 30, 2020. Montrose Community Schools' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

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

Report on Internal Control over Compliance

Management of the Montrose Community Schools, 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 Montrose Community Schools' 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 Montrose Community Schools' internal control over compliance.

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

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

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

Lewis & Knopf, P.C.

LEWIS & KNOPF, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

MONTROSE COMMUNITY SCHOOLS
SUMMARY OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2020

SECTION I – SUMMARY OF AUDITOR’S RESULTS

Financial Statements

Type of auditor’s report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? Yes No
- Significant deficiency (ies) identified? Yes None reported

Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? Yes No
- Significant deficiency (ies) identified? Yes None reported

Type of auditor’s report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with Section 2 CFR 200.516 (a)? Yes No

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
10.553/10.555/10.559	Nutrition Cluster

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

Auditee qualified as low-risk auditee? Yes No

SECTION II – FINANCIAL STATEMENT FINDINGS

There were no findings for the current year.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

There were no findings for the current year.

MONTROSE COMMUNITY SCHOOLS
STATUS OF PRIOR YEAR FINDINGS
YEAR ENDED JUNE 30, 2020

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Finding 2019-001 (Repeat Finding)

Program Name – (Nutrition Cluster) National School Breakfast and National School Lunch, U.S. Department of Agriculture, passed through Michigan Department of Education. CFDA #10.553/10.555/10.559.

Pass-through Entity – Michigan Department of Education

Finding Type - Noncompliance

Criteria – Federal register section 7 CFR Part 210.14b requires school districts to limit its School Breakfast and Lunch Fund net resources to an amount that does not exceed three months average expenditures.

Condition – The District’s net cash resources exceeded three months average expenditures at June 30, 2019.

Questioned Costs – None

Context – The District did not meet the three months average expenditure test at June 30, 2019.

Cause/Effect – Management did not monitor net cash resources to ensure they did not exceed three months average expenditures.

Recommendation: We recommend that the District review the Food Service Fund net cash resources periodically to ensure that the fund will not have an excess of three months average expenditures at the fiscal year end. The District should take this requirement into consideration when preparing the annual budget, and any subsequent adjustments to the budget.

Status: - The finding was corrected during the current year.



October 26, 2020

To the Board of Education of
Montrose Community Schools

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Montrose Community Schools for the year ended June 30, 2020. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards* and the Uniform Guidance, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated June 22, 2020. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Montrose Community Schools are described in Note 1 to the financial statements. The application of existing policies was not changed during the 2019-2020 year. During the fiscal year, the District implemented Governmental Accounting Standards Board Statement No. 84, *Fiduciary Activities*. We noted no transactions entered into by the District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the District's financial statements were:

Estimates have been used to calculate the net pension and net OPEB liabilities.

Estimates have been used in calculating the liability for employee compensated absences.

We evaluated the key factors and assumptions used to develop the balance of employee compensated absences in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's determination of the estimated life span of the capital assets.

We evaluated the key factors and assumptions used by management to develop the estimated life span of the capital assets in determining that it is reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 26, 2020.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to required supplementary information (RSI) which are required and supplement the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

Montrose Community Schools
Page 3
October 26, 2020

We were engaged to report on the other supplementary information, which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Restriction on Use

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

Very truly yours,

Lewis & Knopf, P.C.

LEWIS & KNOPF, P.C.
CERTIFIED PUBLIC ACCOUNTANTS