

NEW LOTHROP AREA PUBLIC SCHOOLS

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

YEAR ENDED JUNE 30, 2020

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INDEPENDENT AUDITOR'S REPORT

To the Board of Education
New Lothrop Area Public 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 New Lothrop Area Public Schools, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise New Lothrop Area Public Schools' basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

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

Emphasis of Matter – Change in Accounting Principle

As discussed in Note 13 to the financial statements, New Lothrop Area Public Schools 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 New Lothrop Area Public Schools' basic financial statements. The additional supplementary information, as identified in the table of contents, is presented for purposes of additional analysis and are not a required part of the basic financial statements.

The additional supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The additional supplementary 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 financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the additional supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 18, 2020 on our consideration of New Lothrop Area Public 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 New Lothrop Area Public 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 New Lothrop Area Public Schools' internal control over financial reporting and compliance.

Manes Costeiran PC

September 18, 2020

**NEW LOTHROP AREA PUBLIC SCHOOLS
MANAGEMENT'S DISCUSSION & ANALYSIS
FISCAL YEAR ENDING JUNE 30, 2020**

New Lothrop Area Public Schools, a K-12 school district located in Shiawassee County, Michigan.

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

New Lothrop Area Public Schools, a K-12 school district located in Shiawassee County, Michigan, issues its financial statements under the provisions of Governmental Accounting Standards Board Statement 34 (GASB 34). The Management's Discussion and Analysis, a requirement of accounting principles generally accepted in the United States of America, is intended to be the New Lothrop Area Public Schools' Administration's discussion and analysis of the financial results for the fiscal year ended June 30, 2020.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand New Lothrop Area Public Schools financially as a whole. The *District-wide Financial Statements* provide information about the activities of the whole District, presenting both an aggregate view of the District's finances and longer-term view of the finances. The *Fund Financial Statements* provide the next level of detail. For governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements look at the District's operations in more detail than the district-wide financial statements by providing information about the District's most significant funds - the General Fund and the 2019 Construction Bond Debt Fund, individually, and the remaining Special Revenue, Debt Service, and Capital Projects Funds collectively as nonmajor governmental funds. The remaining statements, the Statement of Fiduciary Net Position, and the Statement of Changes in Fiduciary Net Position, present financial information about activities for which the District acts solely as a trustee or agent for the benefit of others.

DISTRICT-WIDE FINANCIAL STATEMENTS

One of the most important questions asked about the District is, "As a whole, what is the District's financial condition as a result of the year's activities?" The Statement of Net Position and the Statement of Activities, which appear first in the basic financial statements, report information on the District as a whole and its activities in a way that helps you answer this question. These statements are prepared to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

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

The Statement of Net Position and Statement of Activities report the governmental activities for the District, which encompass all of the District’s services, including instruction, supporting services, community services, athletics, and food service. Property taxes, unrestricted State Aid (foundation allowance revenue), State and Federal grants, and other local dollars finance most of these activities.

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

FUND FINANCIAL STATEMENTS

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

The fund statements are formatted to comply with the legal requirements of the Michigan Department of Education’s “Accounting Manual.” In the State of Michigan, the District’s major instructional and instructional support activities are reported in the General Fund. Additional activities are reported in their relevant funds including: Debt Service Funds, the Special Revenue Funds, and Capital Project Funds. Fiduciary funds are also reported at the fund level. They are for assets that belong to others, such as certain student activities where the District is the trustee or fiduciary.

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

Summary of Net Position

The following summarizes the net position as of June 30, 2020 and 2019:

	2020	2019
Assets		
Current and other assets	\$ 5,227,262	\$ 2,898,709
Capital assets	15,829,923	14,394,558
Total assets	21,057,185	17,293,267
Deferred outflows of resources	6,132,378	6,009,787
Liabilities		
Current liabilities	2,049,441	1,633,935
Noncurrent liabilities	36,884,647	32,895,152
Total liabilities	38,934,088	34,529,087
Deferred inflows of resources	2,524,981	2,562,239
Net position		
Net investment in capital assets	1,429,135	957,896
Restricted	226,214	42,753
Unrestricted	(15,924,855)	(14,788,921)
Total net position	\$ (14,269,506)	\$ (13,788,272)

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>
Revenues		
Program revenues		
Charges for service	\$ 257,163	\$ 301,970
Operating and capital grants and contributions	1,504,897	1,185,097
General revenues		
Property taxes	1,494,328	1,173,928
State school aid-unrestricted	7,313,730	7,182,768
Other	180,518	127,991
	<u>10,750,636</u>	<u>9,971,754</u>
Total revenues		
Function/program expenses		
Instruction	6,187,580	5,607,454
Supporting services	3,428,916	3,290,931
Food service	378,524	387,050
Student/school activities	56,869	-
Interest and costs on long-term debt	659,292	533,031
Unallocated depreciation	560,300	539,058
	<u>11,271,481</u>	<u>10,357,524</u>
Total expenses		
Change in net position	<u>\$ (520,845)</u>	<u>\$ (385,770)</u>

Analysis of Results of Operations

During the fiscal year ended June 30, 2020, the District's net position decreased by \$520,845. Several factors which caused the decrease are discussed in the following sections.

Governmental Fund Operating Results

The District's revenues and other financing sources exceeded expenditures and other financing uses by \$1,889,945 for the fiscal year ended June 30, 2020, mainly due to the receipt of bond proceeds in the current year. Further discussion of the District's operating results is available in the section entitled "Results of 2019-2020 Operations" located on the following pages.

Capital Outlay

Capital purchases are recorded as an asset at the government-wide level and depreciated over the useful lives of the assets. During 2019-2020, the District had a net increase in the cost of capital assets of \$1,915,372, and district's accumulated depreciation changed by a net of \$480,007, causing a net increase in net district capital assets of \$1,435,365.

Long-Term Debt Activities

The District's bonds payable increased by a net of \$2,385,000, compensated absences increased by \$6,119, borrowings and accrued interest related to the Michigan School Loan Revolving Fund increased debt by \$293,245, and capitalized bond premiums increased by \$245,879. As a result of these activities, net district long-term debt liabilities increased by \$2,930,243.

Results of 2019-2020 Operations

As previously mentioned, during fiscal year ended June 30, 2020, the District's net position decreased by \$520,845. A few additional significant factors affecting net position during the year that originated at the fund level are discussed below:

General Fund Operations

The General Fund is the main fund for the District and includes all the costs related to educating the students of the New Lothrop Area Public Schools such as: Salaries and benefits for Teachers, Classroom Paraprofessionals, Administrators, Secretaries, Custodians, Maintenance staff, Librarians, Counselors, Bus Drivers and other miscellaneous positions; teaching supplies, employee training, utilities, building maintenance supplies and other.

The District's General Fund change in fund balance was an decrease of \$129,510 for the fiscal year ended June 30, 2020. The General Fund as of June 30, 2020, has a fund balance of \$1,013,633 or 11.47% of expenditures and other financing uses for the 2019-2020 fiscal year. The District has budgeted to utilize \$571,898 of this fund balance to balance the 20/21 budget.

Debt Service Fund Operations

The Debt Service Funds are set up to collect taxes and state revenues and pay annual debt payments. At June 30, 2020, the Debt Service Funds had \$214,389 in fund equity available for future bond payments. The District levies taxes to make debt payment obligations. If taxes levied are not sufficient the District will borrow funds from the Michigan School Loan Revolving Fund. Any funds borrowed from this Fund will be paid back toward the end of the bond obligations. In the fiscal year ended June 30, 2020, the District borrowed from the Fund in the amount of \$293,245 (including accrued interest). The District also had compensated absences outstanding at June 30, 2020, which totaled \$110,585. The District had changes to their long-term debt obligations as follows:

	Principal Balance <u>June 30, 2019</u>	Additions	Payments	Principal Balance <u>June 30, 2020</u>
2014 Refunding Bonds	\$ 8,570,000	\$ -	\$ -	\$ 8,570,000
2015 Refunding Bonds	1,200,000	-	600,000	600,000
2013 School Technology Bond	340,000	-	85,000	255,000
2019 Building and Site Bonds	-	3,095,000	25,000	3,070,000
Capitalized bond premiums	796,448	305,852	59,973	1,042,327
Michigan School Loan Revolving Fund Principal and interest	<u>3,639,092</u>	<u>293,245</u>	<u>-</u>	<u>3,932,337</u>
Total long-term bond obligations	<u>\$ 14,545,540</u>	<u>\$ 3,694,097</u>	<u>\$ 769,973</u>	<u>\$ 17,469,664</u>

See Note 6 for more details related to long-term debt.

Capital Projects Operations

The District purchased new wrestling mats, asphalt maintenance for the parking lots, and continued work on renovations to the school during the 2019-2020 fiscal year.

School Service Funds

The New Lothrop Area Public Schools has a school service (Special Revenue) fund for food service. In 2019-2020, the Food Service Fund had revenues of \$322,915 and expenditures and other financing uses of \$357,385. The Food Service Fund is self-supporting. The Food Service Fund had a fund balance of \$27,237.

The New Lothrop Area Public Schools also has a school service (Special Revenue) fund for student/school activities. In 2019-2020, the Student Activity Fund had revenues of \$57,232 and expenditures and other financing uses of \$56,869. The Student Activity Fund is self-supporting. The Student Activity Fund had a fund balance of \$39,974.

Net Investment in Capital Assets

The District's net investment in capital assets increased by \$1,435,365 during the fiscal year. This can be summarized as follows:

	<u>Balance June 30, 2019</u>	<u>Net Change</u>	<u>Balance June 30, 2020</u>
Capital assets	\$ 24,927,851	\$ 1,915,372	\$ 26,843,223
Less accumulated depreciation	<u>(10,533,293)</u>	<u>(480,007)</u>	<u>(11,013,300)</u>
Net investment in capital outlay	<u>\$ 14,394,558</u>	<u>\$ 1,435,365</u>	<u>\$ 15,829,923</u>

See Note 4 for more details related to capital assets.

IMPORTANT ECONOMIC FACTORS

State of Michigan Unrestricted Aid (Net State Foundation Grant)

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

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

Per Student Foundation Allowance

Annually, the State of Michigan establishes the per student foundation allowance. The New Lothrop Area Public Schools foundation allowance was \$8,111 per student for the 2019-2020 school year.

Student Enrollment

The District's State aid membership count for 2019-2020 was 920 students. The District's enrollment increased slightly from the prior school year's student count

	<u>State Aid Membership</u>	<u>FTE Change from Prior Year</u>
2019-2020	920	9
2018-2019	911	12
2017-2018	899	-3
2016-2017	902	-27
2015-2016	929	17
2014-2015	912	19
2013-2014	893	45

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

The District levies 18.000 mills (after Headlee Rollback) of property taxes for operations (General Fund) on Non- Homestead properties. Under Michigan law, the taxable levy is based on the taxable valuation of properties. Annually, the taxable valuation increase in property values is capped at the rate of the prior year's CPI increase or five (5)%, whichever is less. At the time of sale, a property's taxable valuation is readjusted to the State Equalized Value, which is, theoretically, 50% of the market value. The District's non-homestead property tax revenue for 2019-2020 fiscal year was approximately \$207,000. The non-homestead property tax revenue decreased by approximately 4.2% compared to the prior year.

Debt Fund Property Taxes

The District's debt fund levy, which is used to pay the principal and interest on bond obligations, is based on the taxable valuation of all properties: homestead and non-homestead. For 2019-2020, the District's refunding bonds debt millage levy was 7.24 mills, the Technology Debt millage was 0.68 mills, and the Construction Debt millage was 1.25 mills, which generated revenue of approximately \$895,000, \$79,000 and \$159,000, respectively.

Sinking Fund Property Taxes

The District also had a 1.25 mill sinking fund millage in place in 19/20 to fund certain capital project needed costs. This millage generated approximately \$154,000.

GENERAL FUND BUDGET & ACTUAL REVENUES & EXPENDITURES

Listed below is an analysis of the original budget and final budget to the final actual.

General Fund Revenues and Other Sources, Budget vs. Actual

Fiscal Year	Original Budget	Final Budget	Actual	Variances	
				Actual and Original Budget	Actual and Final Budget
2019-2020	\$ 8,532,187	\$ 8,824,394	\$ 8,704,402	2.02%	-1.36%
2018-2019	8,335,572	8,547,029	8,572,214	2.84%	0.29%
2017-2018	7,813,328	8,179,562	8,104,666	3.73%	-0.92%
2016-2017	7,856,815	7,873,559	7,837,168	-0.25%	-0.46%
2015-2016	7,597,079	7,931,948	7,930,671	4.39%	-0.02%
2014-2015	7,391,437	7,601,558	7,599,352	2.81%	-0.03%

General Fund Expenditures and Other Uses Budget vs. Actual

Fiscal Year	Original Budget	Final Budget	Actual	Variances	
				Actual and Original Budget	Actual and Final Budget
2019-2020	\$ 8,674,780	\$ 8,837,649	\$ 8,833,912	-1.83%	0.04%
2018-2019	8,410,981	8,375,680	8,387,173	0.28%	-0.14%
2017-2018	8,047,179	8,234,450	8,160,891	-1.41%	0.89%
2016-2017	7,833,135	7,947,169	7,960,726	-1.63%	-0.17%
2015-2016	7,493,755	7,836,570	7,853,099	-4.80%	-0.21%
2014-2015	7,235,534	7,577,821	7,576,419	-4.71%	0.02%

Original vs. Final Budget

The Uniform Budget Act of the State of Michigan requires that the Board of Education approve the original budget for the upcoming year prior to July 1, the start of the fiscal year. As a matter of practice, New Lothrop Area Public Schools amends its budget periodically during the school year. The June 2020 budget amendment was the final budget for the fiscal year.

Revenues and other sources change from Original to Final Budget

		Percent
Total revenues and other sources original budget	\$ 8,532,187	100%
Total revenues and other sources final budget	<u>8,824,394</u>	<u>103.4%</u>
Increase in budgeted revenues and other sources	<u>\$ 292,207</u>	<u>3.4%</u>

Expenditures and other uses change from Original to Final Budget

The District's budget for expenditures changed as follows during the year:

		<u>Percent</u>
Total expenditures and other sources original budget	\$ 8,674,780	100%
Total expenditures and other sources final budget	<u>8,837,649</u>	<u>101.9%</u>
Increase in budgeted expenditures and other uses	<u>\$ 162,869</u>	<u>1.9%</u>

The District's actual expenditures and other financing uses differed from the final budget by \$3,737.

Additional Economic Factors and Next Year's Budgets and Rates

Our elected officials and administration considered many factors when setting the District's 2021 fiscal year budget. One of the most important factors affecting the budget is our student count. The State foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The blended count for the 2020 fiscal year was 10% and 90% of the February 2019 and September 2019 student counts, respectively. The 2021 fiscal year budget was adopted in June 2020, based on an estimate of students that will be enrolled in September 2020. Approximately 95% of total General Fund revenues are from State sources. Under State law, the District cannot access additional property tax revenue for general operations. As a result, district funding is heavily dependent on the State's ability to fund local school operations. Based on early enrollment data at the start of the 2020-2021 school year, we anticipate that the fall student count will be close to the estimates used in creating the 2021 fiscal year budget. Once the final student count and related per pupil funding is validated, State law requires the District to amend the budget if actual district resources are not sufficient to fund original appropriations.

Since the District's revenue is heavily dependent on State Funding and the status of the State's School Aid Fund, the actual revenue received depends on the State's ability to collect revenues to fund its appropriation to school districts.

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 Superintendent's Office, New Lothrop Area Public Schools, 9825 Easton Road, New Lothrop, Michigan 48460.

BASIC FINANCIAL STATEMENTS

**NEW LOTHROP AREA PUBLIC SCHOOLS
STATEMENT OF NET POSITION
JUNE 30, 2020**

	<u>Governmental Activities</u>
ASSETS	
Cash and cash equivalents	\$ 618,844
Investments	3,085,730
Accounts receivable	6,000
Due from other governmental units	1,501,375
Inventories	5,009
Prepays	10,304
Capital assets not being depreciated	1,080,048
Capital assets, net of accumulated depreciation	<u>14,749,875</u>
TOTAL ASSETS	<u>21,057,185</u>
DEFERRED OUTFLOWS OF RESOURCES	
Related to pensions	4,553,319
Related to OPEB	1,180,350
Deferred charges on refunding, net of amortization	<u>398,709</u>
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>6,132,378</u>
LIABILITIES	
Accounts payable	669,812
Accrued payroll	500,098
Accrued retirement	219,177
Other accrued liabilities	60,030
Note payable	517,850
Accrued interest payable	82,474
Noncurrent liabilities	
Due within one year	820,585
Due in more than one year	16,759,664
Net pension liability	15,880,405
Net OPEB liability	<u>3,423,993</u>
TOTAL LIABILITIES	<u>38,934,088</u>
DEFERRED INFLOWS OF RESOURCES	
Related to pensions	617,671
Related to OPEB	1,401,901
Related to state aid funding for pension	<u>505,409</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>2,524,981</u>
NET POSITION	
Net investment in capital assets	1,429,135
Restricted for debt service	131,915
Restricted for capital projects (sinking fund)	94,299
Unrestricted	<u>(15,924,855)</u>
TOTAL NET POSITION	<u><u>\$ (14,269,506)</u></u>

See notes to financial statements.

**NEW LOTHROP AREA PUBLIC SCHOOLS
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2020**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Governmental Activities</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants</u>	<u>Net (expense) Revenues and Changes in Net Position</u>
Governmental activities					
Instruction	\$ 6,187,580	\$ 63,889	\$ 978,939	\$ -	\$ (5,144,752)
Supporting services	3,428,916	42,262	47,451	249,400	(3,089,803)
Food service	378,524	151,012	171,903	-	(55,609)
Student/school activities	56,869	-	57,204	-	335
Interest and costs on long-term debt	659,292	-	-	-	(659,292)
Unallocated depreciation	560,300	-	-	-	(560,300)
TOTAL	<u>\$ 11,271,481</u>	<u>\$ 257,163</u>	<u>\$ 1,255,497</u>	<u>\$ 249,400</u>	<u>(9,509,421)</u>
General revenues					
Property taxes					1,494,328
State school aid - unrestricted					7,313,730
Investment earnings					49,826
Miscellaneous					130,692
Total general revenues					<u>8,988,576</u>
CHANGE IN NET POSITION					<u>(520,845)</u>
NET POSITION , beginning of year, as restated					<u>(13,748,661)</u>
NET POSITION , end of year					<u>\$ (14,269,506)</u>

See notes to financial statements.

**NEW LOTHROP AREA PUBLIC SCHOOLS
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2020**

	<u>General Fund</u>	<u>Capital Projects 2019 Bonded Construction</u>	<u>Total Nonmajor Funds</u>	<u>Total Governmental Funds</u>
ASSETS				
ASSETS				
Cash and cash equivalents	\$ 287,033	\$ -	\$ 331,811	\$ 618,844
Investments	567,267	2,473,053	45,410	3,085,730
Accounts receivable	6,000	-	-	6,000
Due from other governmental units	1,498,577	-	2,798	1,501,375
Inventories	-	-	5,009	5,009
Prepays	10,176	-	128	10,304
TOTAL ASSETS	<u>\$ 2,369,053</u>	<u>\$ 2,473,053</u>	<u>\$ 385,156</u>	<u>\$ 5,227,262</u>
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ 63,858	\$ 605,901	\$ 53	\$ 669,812
Accrued payroll	500,098	-	-	500,098
Accrued retirement	213,584	-	5,593	219,177
Other accrued liabilities	60,030	-	-	60,030
Note payable	517,850	-	-	517,850
TOTAL LIABILITIES	<u>1,355,420</u>	<u>605,901</u>	<u>5,646</u>	<u>1,966,967</u>

See notes to financial statements.

**NEW LOTHROP AREA PUBLIC SCHOOLS
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2020**

	<u>General Fund</u>	<u>Capital Projects 2019 Bonded Construction</u>	<u>Total Nonmajor Funds</u>	<u>Total Governmental Funds</u>
FUND BALANCES				
Nonspendable				
Prepays and inventories	\$ 10,176	\$ -	\$ 5,137	\$ 15,313
Restricted				
Debt service	-	-	214,389	214,389
Food service	-	-	22,100	22,100
Capital projects	-	1,867,152	94,299	1,961,451
Committed				
Capital projects	-	-	3,611	3,611
Student/school activities	-	-	39,974	39,974
Assigned for subsequent year's expenditures	571,898	-	-	571,898
Unassigned	431,559	-	-	431,559
TOTAL FUND BALANCES	<u>1,013,633</u>	<u>1,867,152</u>	<u>379,510</u>	<u>3,260,295</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 2,369,053</u>	<u>\$ 2,473,053</u>	<u>\$ 385,156</u>	<u>\$ 5,227,262</u>
Total governmental fund balances				\$ 3,260,295
Amounts reported for governmental activities in the statement of net position are different because:				
Deferred charges on refunding			\$ 398,709	
Deferred outflows of resources - related to pensions			4,553,319	
Deferred outflows of resources - related to OPEB			1,180,350	
Deferred inflows of resources - related to pensions			(617,671)	
Deferred inflows of resources - related to OPEB			(1,401,901)	
Deferred inflows of resources - related to state pension funding			(505,409)	3,607,397
Capital assets used in governmental activities are not financial resources and are not reported in the funds				
The cost of the capital assets is			26,843,223	
Accumulated depreciation is			(11,013,300)	15,829,923
Long-term liabilities are not due and payable in the current period and are not reported in the funds				
Bonds and notes payable				(17,469,664)
Compensated absences				(110,585)
Accrued interest is not included as a liability in governmental funds, it is recorded when paid				(82,474)
Net pension liability				(15,880,405)
Net OPEB liability				(3,423,993)
Net position of governmental activities				<u>\$ (14,269,506)</u>

See notes to financial statements.

NEW LOTHROP AREA PUBLIC SCHOOLS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2020

	<u>General</u>	<u>Capital Projects 2019 Bonded Construction</u>	<u>Total Nonmajor Funds</u>	<u>Total Governmental Funds</u>
REVENUES				
Local sources	\$ 496,470	\$ 38,101	\$ 1,562,628	\$ 2,097,199
State sources	8,058,260	-	267,187	8,325,447
Federal sources	141,672	-	154,116	295,788
Total revenues	<u>8,696,402</u>	<u>38,101</u>	<u>1,983,931</u>	<u>10,718,434</u>
EXPENDITURES				
Current				
Instruction	5,575,172	-	-	5,575,172
Supporting services	3,258,740	-	-	3,258,740
Food service	-	-	349,385	349,385
Other	-	7,032	-	7,032
Student/school activities	-	-	56,869	56,869
Capital outlay	-	1,497,014	432,294	1,929,308
Debt service				
Principal retirement	-	-	710,000	710,000
Interest, fiscal, and other charges	-	24,605	492,047	516,652
Total expenditures	<u>8,833,912</u>	<u>1,528,651</u>	<u>2,040,595</u>	<u>12,403,158</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(137,510)</u>	<u>(1,490,550)</u>	<u>(56,664)</u>	<u>(1,684,724)</u>
OTHER FINANCING SOURCES (USES)				
Premium on bond issuance	-	305,852	-	305,852
Proceeds from issuance of bond	-	3,095,000	-	3,095,000
Proceeds from school loan revolving fund	-	-	173,817	173,817
Transfers in	8,000	-	-	8,000
Transfers out	-	-	(8,000)	(8,000)
Total other financing sources (uses)	<u>8,000</u>	<u>3,400,852</u>	<u>165,817</u>	<u>3,574,669</u>
NET CHANGE IN FUND BALANCES	<u>(129,510)</u>	<u>1,910,302</u>	<u>109,153</u>	<u>1,889,945</u>
FUND BALANCES (DEFICITS)				
Beginning of year, as restated	<u>1,143,143</u>	<u>(43,150)</u>	<u>270,357</u>	<u>1,370,350</u>
End of year	<u>\$ 1,013,633</u>	<u>\$ 1,867,152</u>	<u>\$ 379,510</u>	<u>\$ 3,260,295</u>

See notes to financial statements.

**NEW LOTHROP AREA PUBLIC 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**

Net change in fund balances total governmental funds	\$ 1,889,945
Amounts reported for governmental activities in the statement of activities are because:	
Governmental funds report capital outlays as expenditures. In the statement of activities these costs are allocated over their estimated useful lives as depreciation:	
Depreciation expense	(560,300)
Capital outlay	1,995,665
Accrued interest on bonds is recorded in the statement of activities when incurred; it is not recorded in governmental funds until it is paid:	
Accrued interest payable, beginning of the year	65,965
Accrued interest payable, end of the year	(82,474)
The issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The effect of these differences is the treatment of long-term debt and related items and are as follows:	
Payments on debt	710,000
Proceeds from school loan revolving fund	(173,817)
Proceeds from the issuance of bonds and bond premium	(3,400,852)
Amortization of deferred loss on refunding	(26,581)
Amortization of bond premium	59,973
Long-term interest on school loan revolving fund (accrued)	(119,428)
Compensated absences are reported on the accrual method in the statement of activities, and recorded as an expenditure when financial resources are used in the governmental funds:	
Accrued compensated absences, beginning of the year	104,466
Accrued compensated absences, end of the year	(110,585)
Some revenues and 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:	
Pension related items	(1,103,468)
Other postemployment benefit related items	198,465
Restricted revenue reported in the governmental funds that is deferred to offset the deferred outflows related to section 147c pension contributions subsequent to the measurement period:	
State aid funding for pension	32,181
Change in net position of governmental activities	\$ (520,845)

See notes to financial statements.

**NEW LOTHROP AREA PUBLIC SCHOOLS
STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2020**

	<u>Custodial Fund</u>
ASSETS	
Cash and cash equivalents	\$ 21,182
Investments	<u>36,264</u>
TOTAL ASSETS	<u>57,446</u>
NET POSITION	
Restricted for student organizations	<u>\$ 57,446</u>

**NEW LOTHROP AREA PUBLIC SCHOOLS
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
YEAR ENDED JUNE 30, 2020**

	Custodial Fund
ADDITIONS	
Student activity income	\$ 243,354
DEDUCTIONS	
Payments made on behalf of student organizations	211,746
CHANGE IN NET POSITION	31,608
Net position - beginning of year, as restated	25,838
Net position - end of year	\$ 57,446

**NEW LOTHROP AREA PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 and intergovernmental revenues.

Reporting Entity

The New Lothrop Area Public Schools (the "District") is governed by the New Lothrop Area Public Schools Board of Education (the "Board"), which has responsibility and control over all activities related to public school education within the District. The District receives funding from local, state, and federal sources and must comply with all of the requirements of these funding source entities. However, the District is not included in any other governmental reporting entity as defined by the accounting principles generally accepted in the United States of America. Board members are elected by the public and have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters. In addition, the District's reporting entity does not contain any component units as defined in Governmental Accounting Standards Board (GASB) Statements.

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.

Basis of Presentation - Fund Financial Statements

The fund financial statements provide information about the District's funds, including its fiduciary funds. 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 District reports the following *major* governmental funds:

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

The *2019 Bonded Construction Capital Projects* fund is used to account for capital projects activities funded with bonds issued after May 1, 1994. For these capital projects, the school district has complied with the applicable provisions of section 1351 of the revised school code.

**NEW LOTHROP AREA PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of Presentation - Fund Financial Statements (continued)

The projects for which the 2019 School Building and Site Bonds were issued were in process as of June 30, 2020 and the cumulative revenues, other financing sources (uses), and expenditures recognized for the construction period were as follows.

	2019 Bonded Construction
Revenues and other financing sources	\$ 3,438,953
Expenditures and other finance uses	\$ 1,571,801

Nonmajor Funds

The *special revenue funds* accounts for revenue sources that are legally restricted or committed 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 *capital projects funds (general and technology)*, accounts for resources accumulated from local sources (i.e. interest, contributions, etc.) for the acquisition of future capital assets of the District.

The *capital project sinking fund* accounts for the receipt of property taxes levied and expenditures that have been restricted for the purchase and upgrade of facilities throughout the District. For this fund, the District has complied with the applicable provisions of 1212(1) of the revised school code and the State of Michigan Department of Treasury Letter No. 01-95.

The *debt service funds* account for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds. The District maintains debt service funds for the 2013, 2014-2015, and 2019 bond issues.

Fiduciary funds account for assets held by the District in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the District under the terms of a formal trust agreement. Fiduciary funds are not included in the government-wide statements.

The *custodial fund* consists of assets for the benefit of individuals and the District does not have administrative involvement with the assets or direct financial involvement with the assets. In addition, the assets are not derived from the District's provision of goods or services to those individuals. This fund is used to account for assets that the District holds for others in an agency capacity (primarily student activities).

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 and advances to/from other funds. While these balances are reported in fund financial statements, they are eliminated in the preparation of the government-wide financial statements.

**NEW LOTHROP AREA PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of Presentation - Fund Financial Statements (continued)

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

Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable 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 primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

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

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

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are generally 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. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Property taxes, state and federal aid, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end).

**NEW LOTHROP AREA PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Measurement Focus and Basis of Accounting (continued)

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The Foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the current year ended, the foundation allowance was based on pupil membership counts.

The state portion of the Foundation is provided primarily by a state education property tax millage of 6 mills on Principal Residence Exemption (PRE) property and an allocated portion of state sales and other taxes. The local portion of the Foundation is funded primarily by Non-PRE property taxes which may be levied at a rate of up to 18 mills as well as 6 mills for Commercial Personal Property Tax. The state revenue is recognized during the foundation period and is funded through payments from October to August. Thus, the unpaid portion at June 30 is reported as due from other governmental units.

The District also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain governmental funds require an accounting to the state of the expenditures incurred. For categorical funds meeting this requirement, funds received and accrued, which are not expended by the close of the fiscal year are recorded as unearned revenue.

All other revenue items are generally considered to be measurable and available only when cash is received by the District.

Budgetary Information

Budgetary basis of accounting:

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general fund and special revenue funds. 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.

**NEW LOTHROP AREA PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Budgetary Information (continued)

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

- a. 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.
- b. Public hearings are conducted to obtain taxpayer comments.
- c. 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, are noted in the required supplementary information section.
- d. 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.
- e. 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.

Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance

Cash and Cash Equivalents

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of 3 months or less from the date of acquisition.

Investments

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.

**NEW LOTHROP AREA PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance (continued)

Investments (continued)

- 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.

Inventories and Prepaid Items

Inventories are valued at cost using the first-in/first-out (FIFO) method and consist of expendable supplies. The cost of such inventories is recorded as expenditures/expenses when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

**NEW LOTHROP AREA PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance (continued)

Capital Assets

Capital assets, which include property, plant, equipment, and transportation vehicles, are reported in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Group purchases are evaluated on a case by case basis. Donated capital assets are recorded at their estimated acquisition value at the date of donation.

Land is not depreciated. The other property, plant, and equipment of the District are depreciated using the straight-line method over the following estimated useful lives:

	Years
Land improvements	15 - 20
Buildings and additions	10 - 50
Equipment, furnitures, and other assets	5 - 20
Vehicles	8

Defined Benefit Plans

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 (MPSERS) and additions to/deductions from MPSERS fiduciary net position have been determined on the same basis as they are reported by MPSERS. 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.

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.

**NEW LOTHROP AREA PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance (continued)

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 qualify for reporting in this category. The first is restricted section 147c state aid deferred to offset deferred outflows related to section 147c pension 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. These amounts are deferred and recognized as inflow of resources in the period that the amounts become available.

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.

In computation of invested in capital assets, net of related debt, the school loan revolving fund principal balance of \$3,129,322 is considered capital-related debt. Accrued interest on the school bond loan fund of \$803,015 is not considered capital-related debt.

Fund Balance Flow Assumptions

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

**NEW LOTHROP AREA PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance (continued)

Fund Balance Policies

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The District itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

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

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

Revenues and Expenditures/Expenses

Program Revenues

Amounts reported as *program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, unrestricted state aid, interest, and other internally dedicated resources are reported as general revenues rather than as program revenues.

Property Taxes

Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. The taxes are levied and become a lien as of July 1 and December 1 and are due upon receipt of the billing by the taxpayer and become a lien on the first day of the levy year. The actual due dates are September 14 and February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity.

**NEW LOTHROP AREA PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenues and Expenditures/Expenses (continued)

Property Taxes (continued)

For the year ended June 30, 2020, the District levied the following amounts per \$1,000 of assessed valuation:

Fund	Mills
General fund	
Non-Principal Residence Exemption (PRE)	18.00
Commercial Personal Property	6.00
Debt service fund	
PRE, Non-PRE, Commercial Personal Property	9.17
Sinking fund	
PRE, Non-PRE, Commercial Personal Property	1.25

Compensated Absences

The District's policy permits employees to accumulate earned but unused vacation and sick leave benefits, which are eligible for payment upon separation from service. The liability for such leave is reported as incurred in the government-wide financial statements. A liability for those amounts is recorded in the governmental funds only if the liability has matured as a result of employee leaves, resignations or retirements. The liability for compensated absences includes salary and related benefits, where applicable.

Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities on the statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method which approximates the effective interest method over the term of the related debt. Bond issuance costs are reported as expenditures in the year in which they are incurred.

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 on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

NOTE 2 - DEPOSITS AND INVESTMENTS

As of June 30, 2020, the District 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, \$479,871 of the District's bank balance of \$729,871 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 \$640,026.

**NEW LOTHROP AREA PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 2 - DEPOSITS AND INVESTMENTS (continued)

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.

Investment Type	Fair Value	Weighted Average Maturity
MILAF External Investment pool - CMC	\$ 2,678,256	N/A
MILAF External Investment pool - MAX	446,550	N/A
Total fair value	\$ 3,124,806	

As of June 30, 2020, the District had a book value of \$3,121,994 invested in MILAF. The market value, as noted above, at June 30, 2020 was \$3,124,806. The difference, \$2,812, was checks drawn on the account that were outstanding at year-end.

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. Obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and do not require disclosure of credit quality.

Investment Type	Fair Value	Rating	Rating Agency
MILAF External Investment pool - CMC	\$ 2,678,256	AAAm	Standard & Poor's
MILAF External Investment pool - MAX	446,550	AAAm	Standard & Poor's
Total fair value	\$ 3,124,806		

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

**NEW LOTHROP AREA PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

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

The District voluntarily invests certain excess funds in external pooled investment funds which included money market funds. One of the pooled investment funds utilized by the District is the Michigan Investment Liquid Asset Fund (MILAF). MILAF funds are considered external investment pools as defined by the GASB and as such are recorded at amortized cost which approximate fair value. The MILAF (MAX Class) fund requires notification of redemptions prior to 14 days to avoid penalties. These funds are not subject to the fair value disclosures.

	<u>Amortized Cost</u>
MILAF External Investment pool - CMC	\$ 2,678,256
MILAF External Investment pool - MAX	<u>446,550</u>
	<u>\$ 3,124,806</u>

The cash and cash equivalents and investments referred to above have been reported in either the cash and cash equivalents or investments captions on the financial statements, based upon criteria disclosed in Note 1.

At June 30, 2020, the carrying amounts are summarized as follows:

Carrying Value	
Deposits - including fiduciary funds of \$21,182	\$ 640,026
Petty cash	100
Investments	<u>3,121,994</u>
Total	<u>\$ 3,762,120</u>

**NEW LOTHROP AREA PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 2 - DEPOSITS AND INVESTMENTS (continued)

The above amounts are reported in the financial statements as follows:

Cash and cash equivalents - District-wide	\$ 618,944
Cash - fiduciary funds	21,182
Investments - fiduciary funds	36,264
Investments - District-wide	<u>3,085,730</u>
	<u><u>\$ 3,762,120</u></u>

NOTE 3 - INTERGOVERNMENTAL RECEIVABLES

Intergovernmental receivables at June 30, 2020 consist of the following:

	Government-	
	wide	
State Aid	<u>\$ 1,325,228</u>	
Federal	<u>176,147</u>	
	<u><u>\$ 1,501,375</u></u>	

No allowance for doubtful accounts is considered necessary based on previous experience.

NOTE 4 - CAPITAL ASSETS

A summary of changes in the District's capital assets follows:

	Balance July 1, 2019	Additions/ Reclassifications	Deletions/ Reclassifications	Balance June 30, 2020
Capital assets not being depreciated				
Land	\$ 56,000	\$ -	\$ -	\$ 56,000
Construction in progress	52,135	1,015,063	(43,150)	1,024,048
Subtotal	<u>108,135</u>	<u>1,015,063</u>	<u>(43,150)</u>	<u>1,080,048</u>
Capital assets being depreciated:				
Land improvements	280,786	-	-	280,786
Buildings and additions	22,431,104	853,666	-	23,284,770
Furniture and equipment	1,900,300	140,086	(20,000)	2,020,386
Vehicles	207,526	30,000	(60,293)	177,233
Total capital assets being depreciated	<u>24,819,716</u>	<u>1,023,752</u>	<u>(80,293)</u>	<u>25,763,175</u>
Less accumulated depreciation for				
Land improvements	(153,347)	(11,545)	-	(164,892)
Buildings and additions	(8,525,690)	(481,859)	-	(9,007,549)
Furniture and equipment	(1,646,730)	(66,896)	20,000	(1,693,626)
Vehicles	(207,526)	-	60,293	(147,233)
Total accumulated depreciation	<u>(10,533,293)</u>	<u>(560,300)</u>	<u>80,293</u>	<u>(11,013,300)</u>
Total capital assets being depreciated	<u>14,286,423</u>	<u>463,452</u>	<u>-</u>	<u>14,749,875</u>
Capital assets, net	<u><u>\$ 14,394,558</u></u>	<u><u>\$ 1,478,515</u></u>	<u><u>\$ (43,150)</u></u>	<u><u>\$ 15,829,923</u></u>

**NEW LOTHROP AREA PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 4 - CAPITAL ASSETS (continued)

Depreciation for the fiscal year ended June 30, 2020 amounted to \$560,300 and is reported as unallocated depreciation on the statement of activities. The District has determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

NOTE 5 - NOTE PAYABLE - STATE AID ANTICIPATION NOTE

During the current year the District was issued a state aid anticipation note in the amount of \$850,000 which had an interest rate of 2.10%. Proceeds of the note were used to fund school operations. The note was secured by the full faith and credit of the District as well as pledged state aid. In an event of the unavailability or insufficiency of state school aid for any reason, the note is payable from tax levies within the District's constitutional and statutory limitations or from unencumbered funds. Activity for the year ended June 30, 2020, including accrued interest, is as follows:

Balance July 1, 2019	Additions	Payments	Balance June 30, 2020
\$ 770,625	\$ 867,850	\$ 1,120,625	\$ 517,850

NOTE 6 - LONG-TERM OBLIGATIONS

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

	Balance July 1, 2019	Additions	Deletions	Balance June 30, 2020	Amounts due within one year
General obligation bonds	\$ 10,906,448	\$ 3,400,852	\$ 769,973	\$ 13,537,327	\$ 710,000
Notes from direct borrowings and direct placements					
Michigan School Loan Revolving Fund, including interest	3,639,092	293,245	-	3,932,337	-
Compensated absences	104,466	148,160	142,041	110,585	110,585
	\$ 14,650,006	\$ 3,842,257	\$ 912,014	\$ 17,580,249	\$ 820,585

**NEW LOTHROP AREA PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 6 - LONG-TERM OBLIGATIONS (continued)

Long-term obligations at June 30, 2020 is comprised of the following issues:

General obligation bonds

\$8,570,000 2014 Refunding bonds dated November 12, 2014, due in annual principal installments ranging from \$600,000 to \$635,000 from May 1, 2022 through May 1, 2035, with interest of 3.50% to 4.00%, payable semi-annually.	\$ 8,570,000
\$3,445,000 2015 Refunding bonds dated April 16, 2015, due in annual principal installments of \$600,000 through May 1, 2021, with interest of 4.00%, payable semi-annually.	600,000
\$760,000 2013 School technology bonds dated June 26, 2013, due in annual principal installments of \$85,000 through May 1, 2023, with interest of 2.35%, payable semi-annually.	255,000
\$3,095,000 2019 School building and site bonds dated August 1, 2019, due in annual principal installments ranging from \$25,000 to \$235,000 through May 1, 2049, with interest of 4.00% to 5.00%, payable semi-annually.	3,070,000
Plus issuance premiums	<u>1,042,327</u>
Total general obligation bonds	<u>13,537,327</u>

Notes from direct borrowings and direct placements

School Loan Revolving Fund	<u>3,932,337</u>
Total general obligation bonds and notes from direct borrowings	17,469,664
Compensated absences	<u>110,585</u>
Total long-term obligations	<u><u>\$ 17,580,249</u></u>

The District has defeased certain general obligation bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the District's financial statements. At June 30, 2020, \$9,400,000 of bonds outstanding are considered defeased.

**NEW LOTHROP AREA PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 6 - LONG-TERM OBLIGATIONS (continued)

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

Year Ending June 30,	General Obligation Bonds		Notes from Direct Borrowings and Direct Placements		Compensated Absences	Total
	Principal	Interest	Principal	Interest		
2021	\$ 710,000	\$ 494,842	\$ -	\$ -	\$ -	\$ 1,204,842
2022	720,000	467,596	-	-	-	1,187,596
2023	745,000	439,948	-	-	-	1,184,948
2024	655,000	411,300	-	-	-	1,066,300
2025	655,000	384,850	-	-	-	1,039,850
2026-2030	3,190,000	1,531,300	-	-	-	4,721,300
2031-2035	3,125,000	1,019,000	-	-	-	4,144,000
2036-2040	735,000	506,000	-	-	-	1,241,000
2041-2045	1,030,000	312,200	-	-	-	1,342,200
2046-2049	930,000	93,600	-	-	-	1,023,600
	12,495,000	5,660,636	-	-	-	18,155,636
Issuance premium	1,042,327	-	-	-	-	1,042,327
School Loan Revolving Fund	-	-	3,129,322	803,015	-	3,932,337
Compensated absences	-	-	-	-	110,585	110,585
	<u>\$ 13,537,327</u>	<u>\$ 5,660,636</u>	<u>\$ 3,129,322</u>	<u>\$ 803,015</u>	<u>\$ 110,585</u>	<u>\$ 23,240,885</u>

Interest and costs on long-term obligations for the year ended June 30, 2020 was approximately \$516,000.

Borrowing from the State of Michigan - The School Loan Revolving Fund payable represents notes payable to the State of Michigan for loans made to the school district, as authorized by the State of Michigan Constitution, for the purpose of paying principal and interest on general obligation bonds of the school district issued for capital expenditures. Interest rates are to be annually determined by the State Administrative Board. The interest rate at June 30, 2020 was 3.12%. Repayment is required when the millage rate necessary to cover the annual bonded debt services falls below 8.49 mills. The school district is required to levy 8.49 mills and repay to the state any excess of the amount levied over the bonded debt service requirements. Currently the District levies 9.17 mills. Due to the variability of the factors that affect the timing of repayment, including the future amount of state-equalized value of property in the school district, no provision for repayment has been included in the above amortization schedule. 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.

**NEW LOTHROP AREA PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 7 - PENSION AND OTHER POSTEMPLOYMENT BENEFITS

Plan Description

The Michigan Public School Employees' Retirement System (MPSERS) (System) 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. MPSERS issues a publicly available Comprehensive Annual Financial Report that can be obtained at www.michigan.gov/ors schools.

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

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

Benefits Provided - Overall

Participants are enrolled in one of multiple plans based on date of hire and certain voluntary elections. A summary of the plans offered by MPSERS is as follows:

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

**NEW LOTHROP AREA PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 7 - PENSION AND OTHER POSTEMPLOYMENT BENEFITS (continued)

Benefits Provided - Pension

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

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

Pension Reform 2010

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

Pension Reform 2012

On September 4, 2012, the Governor signed Public Act 300 of 2012 into law. The legislation grants all active members who first became a member before July 1, 2010 and who earned service credit in the 12 months ending September 3, 2012 or were on an approved professional services or military leave of absence on September 3, 2012, a voluntary election regarding their pension. Any changes to a member's pension are effective as of the member's *transition date*, which is defined as the first day of the pay period that begins on or after February 1, 2013.

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

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

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

- Basic plan members: 4% contribution
- Member Investment Plan (MIP)-Fixed, MIP-Graded, and MIP-Plus members: a flat 7% contribution

**NEW LOTHROP AREA PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 7 - PENSION AND OTHER POSTEMPLOYMENT BENEFITS (continued)

Pension Reform 2012 (continued)

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

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

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

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

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

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

Pension Reform of 2017

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

**NEW LOTHROP AREA PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 7 - PENSION AND OTHER POSTEMPLOYMENT BENEFITS (continued)

Benefits Provided - Other Postemployment Benefit (OPEB)

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

Retiree Healthcare Reform of 2012

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

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

Regular Retirement (No Reduction Factor for Age)

Eligibility - A Basic plan member may retire at age 55 with 30 years credited service; or age 60 with 10 years credited service. For Member Investment Plan (MIP) members, age 46 with 30 years credited service; or age 60 with 10 years credited service; or age 60 with 5 years of credited service provided member worked through 60th birthday and has credited service in each of the last 5 years. For Pension Plus Plan (PPP) members, age 60 with 10 years of credited service.

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

**NEW LOTHROP AREA PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 7 - PENSION AND OTHER POSTEMPLOYMENT BENEFITS (continued)

Member Contributions

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

Employer Contributions

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

Employer contributions to the System are determined on an actuarial basis using the entry age normal actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the service of the individual between entry age and assumed exit age. The normal cost is the annual cost assigned under the actuarial funding method, to the current and subsequent plan years. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis.

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

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

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

The District's pension contributions for the year ended June 30, 2020 were equal to the required contribution total. Total pension contributions were approximately \$1,319,000. Of the total pension contributions approximately \$1,294,000 was contributed to fund the Defined Benefit Plan and approximately \$25,000 was contributed to fund the Defined Contribution Plan.

The District's OPEB contributions for the year ended June 30, 2020 were equal to the required contribution total. Total OPEB contributions were approximately \$390,000. Of the total OPEB contributions approximately \$373,000 was contributed to fund the Defined Benefit Plan and approximately \$17,000 was contributed to fund the Defined Contribution Plan.

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

**NEW LOTHROP AREA PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 7 - PENSION AND OTHER POSTEMPLOYMENT BENEFITS (continued)

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

Pension Liabilities

The net pension liability was measured as of September 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation date of September 30, 2018 and rolled-forward using generally accepted actuarial procedures. The District's proportion of the net pension liability was based on a projection of its long-term share of contributions to the pension plan relative to the projected contributions of all participating reporting units, actuarially determined.

<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	0.04795%	0.04780%
Net pension liability for the district	\$ 15,880,405	\$ 14,368,262

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

For the year ended June 30, 2020, the District recognized pension expense of \$2,488,402.

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 expected and actual experience	\$ 71,181	\$ 66,220
Changes of assumptions	3,109,394	-
Net difference between projected and actual earnings on pension plan investments	-	508,940
Changes in proportion and differences between District contributions and proportionate share of contributions	164,013	42,511
The District's contributions subsequent to the measurement date	1,208,731	-
Total	<u>\$ 4,553,319</u>	<u>\$ 617,671</u>

**NEW LOTHROP AREA PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 7 - PENSION AND OTHER POSTEMPLOYMENT BENEFITS (continued)

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

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (continued)

\$1,208,731 reported as deferred outflows of resources related to pensions resulting from District employer contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the subsequent fiscal year.

Other amounts reported as deferred outflows of resources and (deferred inflows) of resources related to pensions will be recognized in pension expense as follows:

Year Ending September 30,	Amount
2020	\$ 1,079,256
2021	864,354
2022	565,531
2023	217,776

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

OPEB Liabilities

The net OPEB liability was measured as of September 30, 2019, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation date of September 30, 2018 and rolled-forward using generally accepted actuarial procedures. The District's proportion of the net OPEB liability was based on a projection of its long-term share of contributions to the OPEB plan relative to the projected contributions of all participating reporting units, actuarially determined.

MPSERS (Plan) Non-University Employers	September 30, 2019	September 30, 2018
Total other postemployment benefit liability	\$ 13,925,860,688	\$ 13,932,170,264
Plan fiduciary net position	\$ 6,748,112,668	\$ 5,983,218,473
Net other postemployment benefit liability	\$ 7,177,748,020	\$ 7,948,951,791
Proportionate share	0.04770%	0.04877%
Net other postemployment benefit liability for the District	\$ 3,423,993	\$ 3,876,884

**NEW LOTHROP AREA PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 7 - PENSION AND OTHER POSTEMPLOYMENT BENEFITS (continued)

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

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

For the year ended June 30, 2020, the District recognized OPEB expense of \$83,387.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in proportion and differences between employer contributions and proportionate share of contributions	\$ 102,753	\$ 85,996
Differences between expected and actual experience	-	1,256,360
Changes of assumptions	741,910	-
Net differences between projected and actual plan investment earnings	-	59,545
Reporting Unit's contributions subsequent to the measurement date	335,687	-
	\$ 1,180,350	\$ 1,401,901

\$335,687, reported as deferred outflows of resources related to OPEB resulting from District employer contributions subsequent to the measurement date, will be recognized as a reduction of the net OPEB liability in the subsequent fiscal year.

Other amounts reported as deferred outflows of resources and (deferred inflows) of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ending September 30,	Amount
2020	\$ (149,812)
2021	(149,812)
2022	(119,349)
2023	(83,846)
2024	(54,419)

Actuarial Assumptions

Investment Rate of Return for Pension - 6.80% a year, compounded annually net of investment and administrative expenses for the MIP, Basic and Pension Plus groups and 6.00% a year, compounded annually net of investment and administrative expenses for Pension Plus 2 Plan.

Investment Rate of Return for OPEB - 6.95% a year, compounded annually net of investment and administrative expenses.

Salary Increases - The rate of pay increase used for individual members is 2.75%.

**NEW LOTHROP AREA PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 7 - PENSION AND OTHER POSTEMPLOYMENT BENEFITS (continued)

Actuarial Assumptions (continued)

Inflation - 3.0%.

Mortality Assumptions:

Retirees - RP-2014 Male and Female Healthy Annuitant Mortality Tables scaled by 82% for males and 78% for females and adjusted for mortality improvements using projection scale MP-2017 from 2006.

Active - RP-2014 Male and Female Employee Annuitant Mortality Tables scaled 100% and adjusted for mortality improvements using projection scale MP-2017 from 2006.

Disabled Retirees - RP-2014 Male and Female Disabled Annuitant Mortality Tables scaled 100% and adjusted for mortality improvements using projection scale MP-2017 from 2006.

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

The Long-Term Expected Rate of Return on Pension and Other Postemployment Benefit Plan Investments - The pension rate was 6.80% (MIP, Basic, and Pension Plus Plan) and 6.00% for Pension Plus 2 Plan, and the other postemployment benefit rate was 6.95%, net of investment and administrative expenses was determined using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension and OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Cost of Living Pension Adjustments - 3.0% annual non-compounded for MIP members.

Healthcare Cost Trend Rate for Other Postemployment Benefit - 7.5% for year one and graded to 3.5% in year twelve.

Additional Assumptions for Other Postemployment Benefit Only - Applies to individuals hired before September 4, 2012:

Opt Out Assumption - 21% of eligible participants hired before July 1, 2008 and 30% of those hired after June 30, 2008 are assumed to opt out of the retiree health plan.

Survivor Coverage - 80% of male retirees and 67% of female retirees are assumed to have coverage continuing after the retiree's death.

Coverage Election at Retirement - 75% of male and 60% of female future retirees are assumed to elect coverage for 1 or more dependents.

**NEW LOTHROP AREA PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 7 - PENSION AND OTHER POSTEMPLOYMENT BENEFITS (continued)

Actuarial Assumptions (continued)

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

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

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

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

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

OPEB Discount Rate - A single discount rate of 6.95% was used to measure the total OPEB liability. This discount rate was based on the long-term expected rate of return on OPEB plan investments of 6.95%. The projection of cash flows used to determine this discount rate assumed that plan member contributions will be made at the current contribution rate and that school districts contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

**NEW LOTHROP AREA PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 7 - PENSION AND OTHER POSTEMPLOYMENT BENEFITS (continued)

Actuarial Assumptions (continued)

Sensitivity of the Net Pension Liability to Changes in the Discount Rate - The following presents the Reporting Unit's proportionate share of the net pension liability calculated using a single discount rate of 6.80% (6.00% for the Pension Plus 2 Plan), as well as what the Reporting Unit's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	Pension		
	1% Decrease	Discount Rate	1% Increase
Reporting Unit's proportionate share of the net pension liability	\$ 20,645,542	\$ 15,880,405	\$ 11,929,942

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate - The following presents the Reporting Unit's proportionate share of the net OPEB liability calculated using a single discount rate of 6.95%, as well as what the Reporting Unit's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	Other Postemployment Benefits		
	1% Decrease	Discount Rate	1% Increase
Reporting Unit's proportionate share of the net other postemployment benefits liability	\$ 4,200,041	\$ 3,423,993	\$ 2,772,327

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

	Other Postemployment Benefits		
	1% Decrease	Current	1% Increase
		Healthcare Cost Trend	
Reporting Unit's proportionate share of the net other postemployment benefits liability	\$ 2,744,699	\$ 3,423,993	\$ 4,199,949

Pension and OPEB Plan Fiduciary Net Position

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

Payable to the Pension and OPEB Plan - At year end the 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).

**NEW LOTHROP AREA PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 8 - OPERATING LEASES

The District entered into three (1) noncancelable operating leases for new buses that began in 2020. Rental expense for the buses for the year ended June 30, 2020 was \$105,449. Future minimum lease payments under the noncancelable operating lease are as follows:

Year Ending <u>June 30,</u>	
2021	\$ 53,549
2022	<u>13,733</u>
	<u><u>\$ 67,282</u></u>

NOTE 9 - RISK MANAGEMENT

The District participates in a pool, the MASB-SEG Property and Casualty Pool with other school districts for property, liability, inland marine, data breach, crime, auto, umbrella excess liability, employee dishonesty, and boilers and machinery. The pool is organized under Public Act 138 of 1982, as amended as a governmental group property and casualty self-insurance pool. In the event the pool's claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The District has not been informed of any special assessments being required.

The District also participates in a pool, the SEG Self-Insurer Workers' Compensation Fund, with other school districts for workers' compensation losses. The pool is organized under Public Act 317 of 1969, as amended. In the event the pool's claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The District has not been informed of any special assessments being required.

NOTE 10 - TRANSFERS

During the year, the food service fund transferred \$8,000 to the general fund for indirect cost reimbursement.

NOTE 11 - SUBSEQUENT EVENTS

Subsequent to year-end, the District borrowed \$950,000 to meet future cash flow needs.

NOTE 12 - CONTINGENT LIABILITIES

Amounts received or receivable from grant agencies are subject to audit and adjustments by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the District expects such amounts, if any, to be immaterial.

**NEW LOTHROP AREA PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 13 - NEW ACCOUNTING STANDARD

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. 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:

	Fund Balances	
	Student/School Activity Fund	Total Governmental Funds
Fund balances as of July 1, 2019, as previously stated	\$ -	\$ 1,330,739
Adoption of GASB Statement 84	39,611	39,611
Fund Balances as of July 1, 2019, as restated	\$ 39,611	\$ 1,370,350
	Net Position	
	Governmental Activities	Custodial Fund
Net position as of July 1, 2019, as previously stated	\$ (13,788,272)	\$ -
Adoption of Gash Statement 84	39,611	25,838
Net position as of July 1, 2019, as restated	\$ (13,748,661)	\$ 25,838

NOTE 14 - 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

**NEW LOTHROP AREA PUBLIC SCHOOLS
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2020**

	Original Budget	Final Amended Budget	Actual	Variance with Final Budget Positive (negative)
REVENUES				
Local sources	\$ 507,052	\$ 469,876	\$ 496,470	\$ 26,594
State sources	7,927,021	8,192,129	8,058,260	(133,869)
Federal sources	75,114	141,389	141,672	283
TOTAL REVENUES	8,509,187	8,803,394	8,696,402	(106,992)
EXPENDITURES				
Current				
Instruction				
Basic programs	4,636,475	4,754,024	4,761,513	(7,489)
Added needs	746,278	803,162	813,659	(10,497)
TOTAL INSTRUCTION	5,382,753	5,557,186	5,575,172	(17,986)
Supporting services				
Student services	328,619	330,910	333,621	(2,711)
Instructional staff	82,480	86,197	85,650	547
General administration	421,888	374,731	367,190	7,541
School administration	513,222	517,268	523,975	(6,707)
Business	151,179	164,198	169,393	(5,195)
Operations and maintenance	798,239	786,530	787,628	(1,098)
Transportation	387,423	367,969	360,573	7,396
Other supporting services				
Technology	280,270	329,953	328,314	1,639
Athletics	328,707	322,707	302,396	20,311
TOTAL SUPPORTING SERVICES	3,292,027	3,280,463	3,258,740	21,723
TOTAL EXPENDITURES	8,674,780	8,837,649	8,833,912	3,737
EXCESS OF REVENUES (UNDER) EXPENDITURES	(165,593)	(34,255)	(137,510)	(103,255)
OTHER FINANCING SOURCES:				
Transfers In	23,000	21,000	8,000	(13,000)
NET CHANGE IN FUND BALANCE	(142,593)	(13,255)	(129,510)	(116,255)
FUND BALANCE, beginning of year	1,143,143	1,143,143	1,143,143	-
FUND BALANCE, end of year	\$ 1,000,550	\$ 1,129,888	\$ 1,013,633	\$ (116,255)

**NEW LOTHROP AREA PUBLIC 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 (DETERMINED AS OF PLAN YEAR ENDED SEPTEMBER 30)**

	2014	2015	2016	2017	2018	2019
Reporting Unit's proportion of net pension liability (%)	0.04522%	0.04681%	0.04720%	0.04690%	0.04780%	0.04795%
Reporting Unit's proportionate share of net pension liability	\$ 9,960,451	\$ 11,432,363	\$ 11,769,674	\$ 12,153,545	\$ 14,368,262	\$ 15,880,405
Reporting Unit's covered-employee payroll	\$ 3,753,980	\$ 3,808,452	\$ 4,021,814	\$ 3,900,545	\$ 4,096,472	\$ 4,169,108
Reporting Unit's proportionate share of net pension liability as a percentage of its covered-employee payroll	265.33%	300.18%	292.65%	311.59%	350.75%	380.91%
Plan fiduciary net position as a percentage of total pension liability (Non-university employers)	66.20%	63.17%	63.27%	64.21%	62.36%	60.31%

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

**NEW LOTHROP AREA PUBLIC SCHOOLS
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE REPORTING UNIT'S PENSION CONTRIBUTIONS
MICHIGAN PUBLIC SCHOOL EMPLOYEES RETIREMENT PLAN
LAST 10 FISCAL YEARS (DETERMINED
OF THE YEAR ENDED JUNE 30)**

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Statutorily required contributions	\$ 872,329	\$ 1,041,875	\$ 1,226,671	\$ 1,126,094	\$ 1,194,435	\$ 1,294,176
Contributions in relation to statutorily required contributions	<u>872,329</u>	<u>1,041,875</u>	<u>1,226,671</u>	<u>1,126,094</u>	<u>1,194,435</u>	<u>1,294,176</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Reporting Unit's covered employee payroll	\$ 3,749,768	\$ 3,881,147	\$ 4,159,848	\$ 3,966,267	\$ 3,966,267	\$ 4,366,483
Contributions as a percentage of covered-employee payroll	23.26%	26.84%	29.49%	28.39%	30.11%	29.64%

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

**NEW LOTHROP AREA PUBLIC 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 (DETERMINED AS OF PLAN YEAR ENDED SEPTEMBER 30)**

	<u>2017</u>	<u>2018</u>	<u>2019</u>
Reporting Unit's proportionate share of net OPEB liability (%)	0.04703%	0.04877%	0.04770%
Reporting Unit's proportionate share of net OPEB liability	\$ 4,164,431	\$ 3,876,884	\$ 3,423,993
Reporting Unit's covered-employee payroll	\$ 3,900,545	\$ 4,096,472	\$ 4,169,108
Reporting Unit's proportionate share of net OPEB liability as a percentage of its covered-employee payroll	106.77%	94.64%	82.13%
Plan fiduciary net position as a percentage of total OPEB liability	36.39%	42.95%	48.46%

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

**NEW LOTHROP AREA PUBLIC SCHOOLS
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE REPORTING UNIT'S OPEB CONTRIBUTIONS
MICHIGAN PUBLIC SCHOOL EMPLOYEES RETIREMENT PLAN
LAST 10 FISCAL YEARS (DETERMINED
OF THE YEAR ENDED JUNE 30)**

	2018	2019	2020
Statutorily required contributions	\$ 329,811	\$ 313,422	\$ 372,610
Contributions in relation to statutorily required contributions	329,811	313,422	372,610
Contribution deficiency (excess)	\$ -	\$ -	\$ -
Reporting Unit's covered employee payroll	\$ 3,966,267	\$ 4,179,704	4,366,483
Contributions as a percentage of covered-employee payroll	8.32%	7.50%	8.53%

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

**NEW LOTHROP AREA PUBLIC SCHOOLS
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2020**

NOTE 1 - PENSION INFORMATION

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%.

NOTE 2 - OPEB INFORMATION

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

**NEW LOTHROP AREA PUBLIC SCHOOLS
COMBINING BALANCE SHEET
JUNE 30, 2020**

	<u>Special Revenue</u>		<u>Capital Projects</u>
	<u>Food Service</u>	<u>Student/ School Activities</u>	<u>Technology Capital Projects</u>
ASSETS			
ASSETS			
Cash and cash equivalents	\$ 24,948	\$ 38,309	\$ -
Investments	-	1,665	2,599
Due from other governmental units	2,798	-	-
Inventories	5,009	-	-
Prepaid expenses	128	-	-
TOTAL ASSETS	<u>\$ 32,883</u>	<u>\$ 39,974</u>	<u>\$ 2,599</u>
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 53	\$ -	\$ -
Accrued retirement	5,593	-	-
TOTAL LIABILITIES	<u>5,646</u>	<u>-</u>	<u>-</u>
FUND BALANCES			
Nonspendable			
Inventories	5,009	-	-
Prepaid expenses	128	-	-
Restricted			
Debt service	-	-	-
Food service	22,100	-	-
Capital projects	-	-	-
Committed			
Capital projects	-	-	2,599
Student/school activities	-	39,974	-
TOTAL FUND BALANCES	<u>27,237</u>	<u>39,974</u>	<u>2,599</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 32,883</u>	<u>\$ 39,974</u>	<u>\$ 2,599</u>

Capital Projects		Debt Service			
General Capital Projects	Sinking Fund	2013 Technology Bond	2014-2015 Refunding Debt	2019 Bonded Construction Debt	Total
\$ -	\$ 54,458	\$ 1,375	\$ 173,842	\$ 38,879	\$ 331,811
1,012	39,841	-	293	-	45,410
-	-	-	-	-	2,798
-	-	-	-	-	5,009
-	-	-	-	-	128
<u>\$ 1,012</u>	<u>\$ 94,299</u>	<u>\$ 1,375</u>	<u>\$ 174,135</u>	<u>\$ 38,879</u>	<u>\$ 385,156</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 53
-	-	-	-	-	5,593
-	-	-	-	-	5,646
-	-	-	-	-	5,009
-	-	-	-	-	128
-	-	1,375	174,135	38,879	214,389
-	-	-	-	-	22,100
-	94,299	-	-	-	94,299
1,012	-	-	-	-	3,611
-	-	-	-	-	39,974
<u>1,012</u>	<u>94,299</u>	<u>1,375</u>	<u>174,135</u>	<u>38,879</u>	<u>379,510</u>
<u>\$ 1,012</u>	<u>\$ 94,299</u>	<u>\$ 1,375</u>	<u>\$ 174,135</u>	<u>\$ 38,879</u>	<u>\$ 385,156</u>

**NEW LOTHROP AREA PUBLIC SCHOOLS
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
YEAR ENDED JUNE 30, 2020**

	<u>Special Revenue</u>		<u>Capital Projects</u>
	<u>Food Service</u>	<u>Student/ School Activities</u>	<u>Technology Capital Projects</u>
REVENUES			
Local sources	\$ 151,012	\$ 57,232	\$ 111
State sources	17,787	-	-
Federal sources	154,116	-	-
Total revenues	<u>322,915</u>	<u>57,232</u>	<u>111</u>
EXPENDITURES			
Current			
Food service	349,385	-	-
Student activities	-	56,869	-
Capital outlay	-	-	15,455
Debt service			
Principal retirement	-	-	-
Interest and other	-	-	450
Total expenditures	<u>349,385</u>	<u>56,869</u>	<u>15,905</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(26,470)</u>	<u>363</u>	<u>(15,794)</u>
OTHER FINANCING SOURCES (USES)			
Transfers out	(8,000)	-	-
Proceeds from school loan revolving fund	-	-	-
Total other financing sources (uses)	<u>(8,000)</u>	<u>-</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	(34,470)	363	(15,794)
FUND BALANCES			
Beginning of year, as restated	<u>61,707</u>	<u>39,611</u>	<u>18,393</u>
End of year	<u>\$ 27,237</u>	<u>\$ 39,974</u>	<u>\$ 2,599</u>

Capital Projects		Debt Service			
General Capital Projects	Sinking Fund	2013 Technology Bond	2014-2015 Refunding Debt	2019 Bonded Construction Debt	Total
\$ 66,199	\$ 154,623	\$ 79,351	\$ 895,486	\$ 158,614	\$ 1,562,628
249,400	-	-	-	-	267,187
-	-	-	-	-	154,116
<u>315,599</u>	<u>154,623</u>	<u>79,351</u>	<u>895,486</u>	<u>158,614</u>	<u>1,983,931</u>
-	-	-	-	-	349,385
-	-	-	-	-	56,869
356,515	60,324	-	-	-	432,294
-	-	85,000	600,000	25,000	710,000
-	-	8,015	388,847	94,735	492,047
<u>356,515</u>	<u>60,324</u>	<u>93,015</u>	<u>988,847</u>	<u>119,735</u>	<u>2,040,595</u>
<u>(40,916)</u>	<u>94,299</u>	<u>(13,664)</u>	<u>(93,361)</u>	<u>38,879</u>	<u>(56,664)</u>
-	-	-	-	-	(8,000)
-	-	-	173,817	-	173,817
-	-	-	173,817	-	165,817
<u>(40,916)</u>	<u>94,299</u>	<u>(13,664)</u>	<u>80,456</u>	<u>38,879</u>	<u>109,153</u>
41,928	-	15,039	93,679	-	270,357
<u>\$ 1,012</u>	<u>\$ 94,299</u>	<u>\$ 1,375</u>	<u>\$ 174,135</u>	<u>\$ 38,879</u>	<u>\$ 379,510</u>

**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
New Lothrop Area Public Schools

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of New Lothrop Area Public Schools as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the New Lothrop Area Public Schools' basic financial statements and have issued our report thereon dated September 18, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered New Lothrop Area Public Schools' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the New Lothrop Area Public Schools' internal control. Accordingly, we do not express an opinion on the effectiveness of the New Lothrop Area Public 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 New Lothrop Area Public 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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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.

Maney Costeiran PC

September 18, 2020