

GLADSTONE AREA SCHOOLS

GLADSTONE, MICHIGAN

**FINANCIAL REPORT WITH
SUPPLEMENTAL INFORMATION**

June 30, 2020

GLADSTONE AREA SCHOOLS

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"A Regional Firm Within the Upper Peninsula of Michigan"

INDEPENDENT AUDITOR'S REPORT

To the Board of Education
Gladstone Area Schools
Gladstone, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Gladstone Area Schools as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Gladstone Area 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 the Gladstone Area Schools, as of June 30, 2020, and the respective changes in financial position, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As described in Note U to the financial statements, in 2020, the Gladstone Area Schools adopted new accounting guidance, GASB 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, budgetary comparison schedules, and schedules of proportionate share of net pension/OPEB liability and contributions, and the notes to required supplementary information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 7, 2020, on our consideration of the Gladstone Area 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 the Gladstone Area 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 the Gladstone Area Schools' internal control over financial reporting and compliance.



Certified Public Accountants
Escanaba, Michigan
December 7, 2020

GLADSTONE AREA SCHOOLS

Management's Discussion and Analysis

This section of Gladstone Area School's annual financial 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 School District's financial statements, which immediately follow this section.

Generally accepted accounting principles (GAAP) according to GASB 34 require the reporting of two types of financial statements: District-wide Financial Statements and Fund Financial Statements. These statements are organized so the reader can understand Gladstone Area School's financial position 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 a long-term view of those 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 government-wide financial statements by providing information about the District's most significant funds, the General Fund, and the Debt Service Fund, with all other funds presented in one column as nonmajor funds. The remaining statement, the Statement of Fiduciary Net Position, presents financial information about activities for which the District acts solely as an agent for the benefit of students and parents.

At the beginning of the school year, the board adopted GASB Statement No. 84, Fiduciary Activities. As a result of this new accounting principle, the Student Activities Fund was established. Its fund balance is committed for student groups at each of the District's locations and the fan club. A prior period adjusted for \$139,709 was made to reflect the beginning fund balance.

The following summarizes the net position at fiscal year ended June 30, 2019 and 2020:

	<u>2019</u>	<u>2020</u>
Assets		
Current Assets	\$ 5,291,346	\$ 6,568,534
Capital Assets	15,560,109	14,684,803
Total Assets	<u>\$ 20,851,455</u>	<u>\$ 21,253,337</u>
Deferred Outflows of Resources		
Related to Pensions & OPEB	<u>\$ 9,462,672</u>	<u>\$ 9,564,348</u>
Liabilities		
Current Liabilities	\$ 5,104,897	\$ 5,919,092
Long-term Liabilities	39,988,925	41,528,930
Total Liabilities	<u>\$ 45,093,822</u>	<u>\$ 47,448,022</u>
Deferred Inflows of Resources		
Related to Pensions, OPEB & Bonds	<u>\$ 3,894,882</u>	<u>\$ 3,830,452</u>
Net Position		
Net Investment in Capital Assets	\$ 5,426,807	\$ 5,877,582
Restricted	551,516	804,070
Unrestricted (Deficit)	(24,652,900)	(27,142,441)
Total Net Position	<u>\$ (18,674,577)</u>	<u>\$ (20,460,789)</u>

GLADSTONE AREA SCHOOLS

Management's Discussion and Analysis

Gladstone Area Schools continues to show a large negative net position due to the Governmental Accounting Standards Board (GASB) pronouncement number 68 and GASB 75, which require a governmental entity's financial statements to recognize its share of the unfunded pension and OPEB liabilities. Gladstone Area Schools is part of the Michigan Public School Employees' Retirement System (MPERS). Gladstone Area Schools' share of the unfunded pension and OPEB liability is \$26,660,933 and \$5,754,823, respectively. Though this looks ominous when added to the school's financial statements, the State of Michigan has worked with its actuaries to develop a plan to stabilize the MPERS over the next 25 years.

The District's net position was \$(20,460,789) as of June 30, 2020. Net Investment in Capital Assets totaled \$5,877,582. This is the original cost of the District's capital assets, less accumulated depreciation and the balances of long-term debt used to finance the acquisition of those assets. Most of the debt will be repaid from voter-approved property taxes collected. Restricted net position of \$804,070 is shown separately to recognize legal constraints imposed from debt covenants, enabling legislation, or contributors. These constraints limit the District's ability to use the restricted net position for day-to-day operations. The remaining \$(27,142,441) represents the accumulated results of all past years' operations.

CAPITAL ASSETS AND DEBT

Capital Assets - At June 30, 2020, the District had \$14,684,803 (net of depreciation) invested in a broad range of capital assets, including land, buildings, furniture, and equipment. Net capital assets decreased \$875,306 from the prior year.

	2019	2020
Land	\$ 149,340	\$ 149,340
Land Improvements	371,267	371,267
Buildings and Improvements	28,314,105	28,338,246
Vehicles	1,314,037	1,314,037
Machinery and Equipment	1,329,886	1,329,886
Total	31,478,635	31,502,775
Less Accumulated Depreciation	(15,918,526)	(16,817,972)
Net Total	\$ 15,560,109	\$ 14,684,803

Debt - At June 30, 2020 the District had \$8,240,000 in General Obligation Bonds outstanding. This is a decrease of \$1,200,000 from the prior year, which is the result of principal payments made on the bonds. The District has certain other debt obligations which are discussed in Note H of these financial statements.

GLADSTONE AREA SCHOOLS
Management's Discussion and Analysis

OPERATIONS

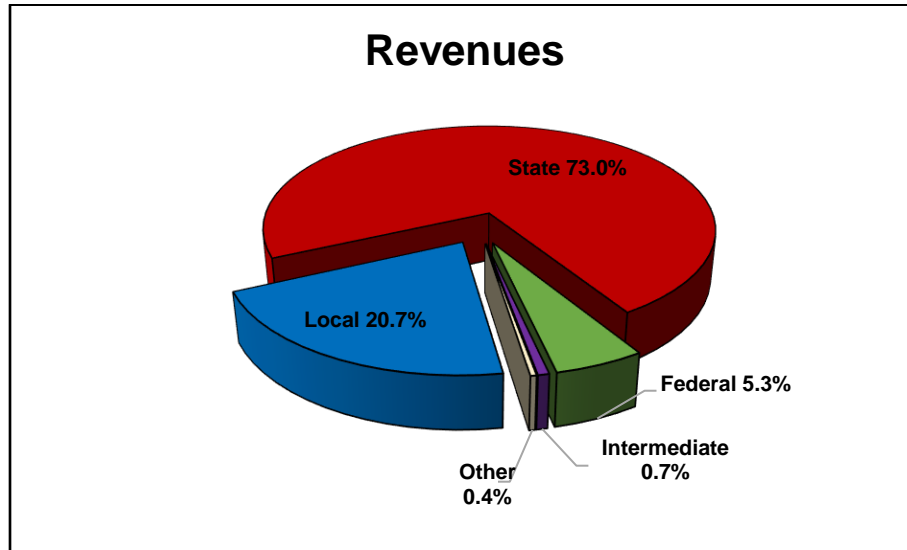
The results of this year's operations for Gladstone Area Schools, as a whole, are reported in the statement of activities. Net position decreased \$1,925,921 in 2020 and decreased \$590,423 in 2019 from operations.

	2019	2020
Program Revenues:		
Charges for Services	\$ 394,997	\$ 337,015
Operating Grants and Contributions	1,070,880	1,483,835
Total Program Revenue	<u>\$ 1,465,877</u>	<u>\$ 1,820,850</u>
General Revenues:		
Property taxes levied for general operations	\$ 1,376,063	\$ 1,384,653
Property taxes levied for debt service	1,593,011	1,634,478
State Foundation Allowance	12,145,239	12,557,691
Other	212,323	213,423
Total General Revenues	<u>\$ 15,326,636</u>	<u>\$ 15,790,245</u>
Total Revenues	<u>\$ 16,792,513</u>	<u>\$ 17,611,095</u>
Expenses:		
Instruction	\$ 10,363,876	\$ 12,131,922
Support Services	4,743,931	5,005,575
Depreciation-Unallocated	899,607	899,446
Interest on Long-Term Debt	396,720	322,650
Athletics	304,519	230,487
Food Services	566,623	601,367
Public Library	107,660	107,687
Student Activities	-	237,882
Total Expenses	<u>\$ 17,382,936</u>	<u>\$ 19,537,016</u>
Change in Net Position	<u>\$ (590,423)</u>	<u>\$ (1,925,921)</u>
Net Position, Beginning of Year as Previously Stated	(18,084,154)	(18,674,577)
Prior Period Adjustment	-	139,709
Net Position, Beginning of Year as Restated	<u>(18,084,154)</u>	<u>(18,534,868)</u>
Net Position, End of Year	<u><u>\$ (18,674,577)</u></u>	<u><u>\$ (20,460,789)</u></u>

GLADSTONE AREA SCHOOLS Management's Discussion and Analysis

REVENUES

The following chart illustrates the District's sources of revenues:



Sources of Revenues - Local sources of revenues total \$3,677,708 and include General Fund revenue of \$1,519,655; School Lunch Fund of \$171,089; Public Library Fund of \$88,459; Student Activity Fund of \$264,027 and Debt Retirement Fund of \$1,634,478. Local sources make up 20.7% of total Governmental Funds Revenues. This is comparable to the prior year of 20.8%.

State sources of revenues total \$12,994,760 and include General Fund revenue of \$12,962,554, School Lunch Fund of \$23,198, and Public Library Fund of \$9,008. State sources make up 73% of total Governmental Funds Revenues. This is down 1.9% from 74.9% in the prior year.

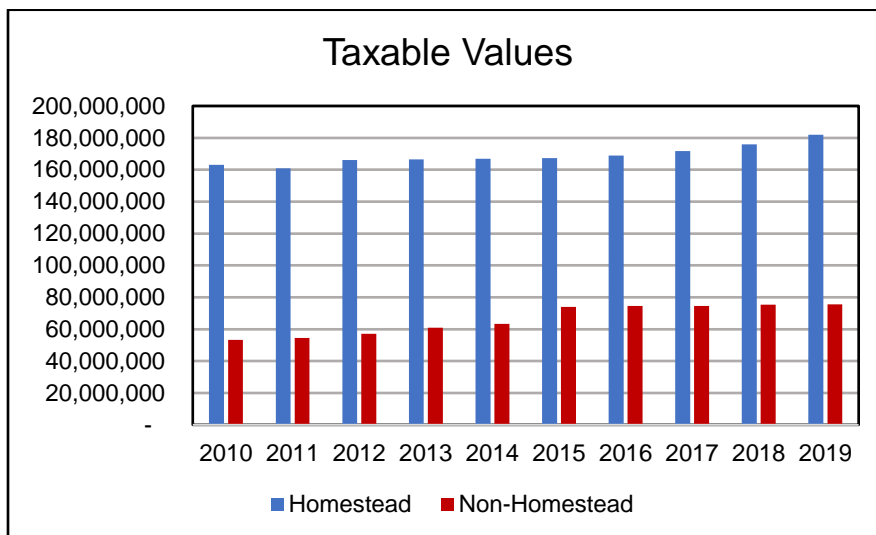
Federal sources of revenues total \$950,779 and include General Fund revenues of \$475,300 and School Lunch Fund of \$475,479. Federal sources make up 5.3% of total Governmental Funds Revenues. This is an increase of 1.8% from the prior year of 3.5%. The increase in federal funds is from the Regional Assistance Grant and additional grant funds in the lunch program to allow the District to provide free lunch and breakfast to all students through the summer due to the coronavirus pandemic.

Intermediate sources total \$118,406 and are made up entirely of General Fund revenues. Intermediate sources of revenue make up .7% of total Governmental Funds Revenues. This is comparable to .7% from the prior year.

Other sources of revenue were interest earnings totaling \$63,484.

Property Taxes - A significant portion of local revenue is provided from property taxes for the General Fund and Debt Retirement Fund. Property tax revenue totaled \$3,019,131. This amount is obtained through a voter approved 18-mill levy on the taxable value of non-homestead properties for the District's operations and a voter approved 6.20-mill levy on the taxable value of all properties, homestead and non-homestead, for debt interest and principal. The following graph illustrates the taxable value trend over the last several years:

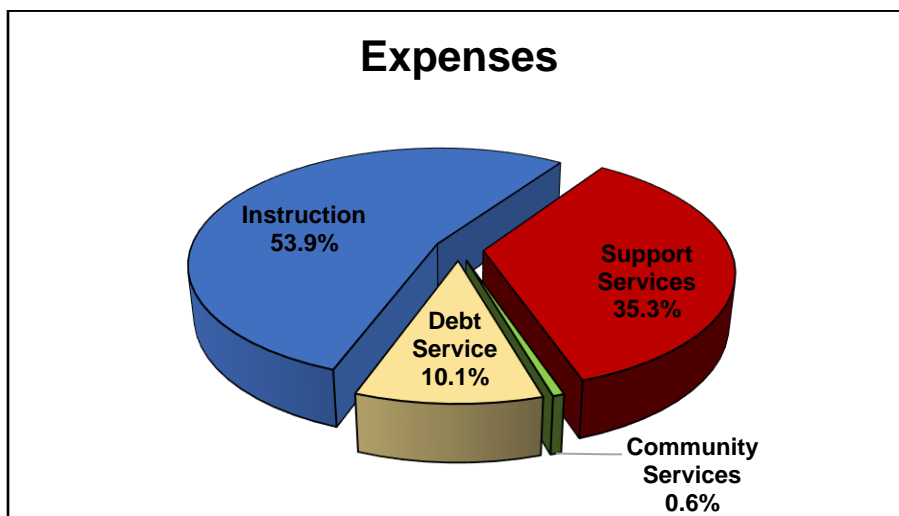
GLADSTONE AREA SCHOOLS Management's Discussion and Analysis



Unrestricted State Aid Foundation Allowance - The largest factor affecting our funding is the state's foundation allowance. The foundation allowance is funding from the state for each student. Our foundation allowance was \$8,111 per student for the 2019-2020 fiscal year. Funding is calculated by student enrollment and is a blend of 90% of current year fall count and 10% of the current year spring count. The state also has a mechanism to add or subtract funding to districts for students entering or exiting a district between count days. The blended student enrollment for fiscal year 2019-2020 was 1,538.73. The per student funding was then reduced by the District's non-homestead tax revenues (18.0 mills) and by the District's commercial personal property tax revenues (6.0 mills).

EXPENDITURES

The following chart illustrates the District's expenditures. Total Governmental Fund Expenditures are \$17,267,652 and include Instruction of \$9,314,051, Support Services of \$6,099,451, Community Services of \$107,687 and Debt Service of \$1,746,463. School lunch, student activities and athletic expenses are included in support services.



GLADSTONE AREA SCHOOLS

Management's Discussion and Analysis

ECONOMIC FACTORS AFFECTING OUR BUDGET

The Board of Education and administration considered many factors when setting the School District's 2020 fiscal year budget. Two of the major factors affecting the budget are the State per pupil foundation allowance (amount we are paid per student which is discussed above) and the number of students attending our school.

The 2020 budget was adopted in June 2019, based on an estimate of students to be enrolled in September 2019. Over the last few years our area has been affected by the weak state and federal economies. We continue to develop the Upper Peninsula Virtual Academy, an on-line educational alternative to a classroom based education. Our UPVA student numbers continue to increase since the program began 7 years ago. We are hopeful our kindergarten numbers will be stable or will slightly increase going forward. We also believe that Gladstone Area Schools has positioned itself well to compete for "Schools of Choice" students who are allowed to transfer to our school district from their neighboring school district.

On March 16, 2020, the Governor mandated schools close over concerns of the Coronavirus Pandemic. The school remained closed through the end of the school year. After the last budget amendment was approved, the School learned they would be getting a \$175 per student reduction in state aid due to a shortfall in the School Aid Fund making revenues come in less than budgeted. During this time, expenses decreased from cost saving in utilities, contracted services, transportation, and supplies.

Of the greatest concern for FY 21 is the blended learning platform due to COVID-19 precautions that will change how funding formulas work and how we count students. Additional concerns which are unique to this coming fiscal year include many unknown factors related to COVID-19. The District is started school in a Face to Face platform with online learning and hybrid options available. Enrollment counts are uncertain for those who may transfer to other online academies during this time of concern for pandemic learning. The District will continue to amend budgets as variables become known and to be conservative in spending where possible. Several new curriculum expenses to accommodate multiple platforms have been purchased with COVID related grant funds along with large quantities of personal protective equipment and cleaning/disinfecting equipment and supplies. The District's center of focus is our children and staff who we place at the highest level of safety and concern.

ORIGINAL vs. REVISED BUDGET

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

As a matter of practice, the District amends its budget three times during the school year. For fiscal year 2019-2020, the budget was revised in January 2020, March 2020, and June 2020.

General Fund Revenues – Budget

Total revenues (including transfers) - June revision	\$ 15,398,278
Total revenues (including transfers) - original budget	14,667,589
Difference	<u><u>\$ 730,689</u></u>

GLADSTONE AREA SCHOOLS

Management's Discussion and Analysis

General Fund Revenues - Actual

The District's actual general fund revenues were \$15,124,399 which is a 1.7% decrease from the June budget revision.

General Fund Expenditures - Budget

Total expenditures (including transfers) - June revision	\$ 15,140,675
Total expenditures (including transfers) - original budget	14,791,293
Difference	<u>\$ 349,382</u>

General Fund Expenditures - Actual

The District's actual general fund expenditures were \$14,866,189 which is 1.8% less than the June budget revision.

Fund Balance – Budget versus Actual

The June budget amendment projected a year end increase of \$257,603 to the fund balance. There was an actual increase in fund balance of \$258,210.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the School District's accountability for the money it receives. If you have questions about this report or need additional information, contact the Superintendent's Office at Gladstone Area Schools, 400 South Tenth Street, Gladstone, Michigan, 49837.

GLADSTONE AREA SCHOOLS

STATEMENT OF NET POSITION

June 30, 2020

	<u>Governmental Activities</u>
ASSETS:	
Current Assets:	
Cash and Equivalents	\$ 4,094,226
Accounts Receivable	2,437,509
Prepays	18,164
Inventories	18,635
Total Current Assets	<u>6,568,534</u>
Non-Current Assets:	
Capital Assets, Net of Accumulated Depreciation	<u>14,684,803</u>
TOTAL ASSETS	<u>\$ 21,253,337</u>
DEFERRED OUTFLOWS OF RESOURCES:	
Related to Pension	\$ 7,729,598
Related to Other Post Employment Benefits	1,834,750
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 9,564,348</u>
LIABILITIES:	
Current Liabilities:	
Accounts Payable	\$ 468,598
Notes Payable	2,248,000
Interest Payable	47,189
Unearned Revenue	248,159
Accrued Payroll and Fringes	1,369,169
Current Maturities of Long-Term Debt	1,537,977
Total Current Liabilities	<u>5,919,092</u>
Non-Current Liabilities:	
Net Pension Liability	26,660,933
Net Other Post Employment Benefit Liability	5,754,823
Bonds Payable	8,807,221
Compensated Absences Payable	1,145,296
Early Retirement Payable	698,634
Less Current Maturities Reported Above	<u>(1,537,977)</u>
Total Non-Current Liabilities	<u>41,528,930</u>
TOTAL LIABILITIES	<u>\$ 47,448,022</u>
DEFERRED INFLOWS OF RESOURCES:	
Bond Premium on 2018 Refunding	\$ 511,124
Related to Pension	1,036,907
Related to Other Post Employment Benefits	2,282,421
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>\$ 3,830,452</u>
NET POSITION:	
Net Investment in Capital Assets	\$ 5,877,582
Restricted for:	
Debt Service	638,216
Student Activities	165,854
Unrestricted	<u>(27,142,441)</u>
TOTAL NET POSITION	<u>\$ (20,460,789)</u>

See accompanying notes to financial statements.

GLADSTONE AREA SCHOOLS**STATEMENT OF ACTIVITIES**

For the year ended June 30, 2020

	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position - Governmental Activities
		Charges for Services	Operating Grants and Contributions	
FUNCTIONS/PROGRAMS:				
Instruction:				
Basic Programs	\$ 10,612,191	\$ 118,138	\$ 259,015	\$ (10,235,038)
Added Needs	1,519,731	-	441,532	(1,078,199)
Total Instruction	12,131,922	118,138	700,547	(11,313,237)
Support Services:				
Pupil	591,959	-	-	(591,959)
Instructional Staff	379,798	-	-	(379,798)
General Administration	343,536	-	-	(343,536)
School Administration	1,301,695	-	-	(1,301,695)
Business	248,165	-	-	(248,165)
Operation and Maintenance	1,285,953	-	-	(1,285,953)
Pupil Transportation	710,530	-	-	(710,530)
Activities Office	44,621	-	-	(44,621)
Outgoing Transfers	99,318	-	-	(99,318)
Total Support Services	5,005,575	-	-	(5,005,575)
Other:				
Depreciation - Unallocated	899,446	-	-	(899,446)
Interest on Long-Term Debt	322,650	-	-	(322,650)
Athletics	230,487	33,999	-	(196,488)
Food Services	601,367	171,089	498,677	68,399
Public Library	107,687	13,789	20,584	(73,314)
Student Activities	237,882	-	264,027	26,145
Total Other	2,399,519	218,877	783,288	(1,397,354)
Total Governmental Activities	\$ 19,537,016	\$ 337,015	\$ 1,483,835	(17,716,166)
General Revenues:				
Taxes:				
Property Taxes Levied for General Operations				1,384,653
Property Taxes Levied for Debt Service				1,634,478
State Aid Formula Grants				12,557,691
Medicaid				4,260
Investment Earnings				63,484
City of Gladstone Public Library Appropriation				13,600
Penal Fines for Public Library Operations				49,494
Rental of School Facilities				8,599
Miscellaneous Sources				73,986
Total General Revenues				15,790,245
CHANGE IN NET POSITION				(1,925,921)
Net Position, Beginning of Year				(18,674,577)
Prior Period Adjustment				139,709
Net Position, Beginning of Year as Restated				(18,534,868)
NET POSITION, END OF YEAR				\$ (20,460,789)

See accompanying notes to financial statements.

GLADSTONE AREA SCHOOLS**BALANCE SHEET
GOVERNMENTAL FUNDS**

June 30, 2020

	General	Debt Service	Other Nonmajor Governmental Funds	Total Governmental Funds
ASSETS:				
Cash and Equivalents	\$ 3,119,975	\$ 638,216	\$ 336,035	\$ 4,094,226
Accounts Receivable	2,321,989	-	115,520	2,437,509
Due from Other Funds	-	-	296,804	296,804
Prepaid items	15,872	-	2,292	18,164
Inventories	6,191	-	12,444	18,635
TOTAL ASSETS	\$ 5,464,027	\$ 638,216	\$ 763,095	\$ 6,865,338
LIABILITIES:				
Accounts Payable	\$ 449,861	\$ -	\$ 18,737	\$ 468,598
Notes Payable	2,248,000	-	-	2,248,000
Due to Other Funds	205,480	-	91,324	296,804
Unearned Revenue	248,159	-	-	248,159
Accrued Payroll and Fringes	1,338,560	-	30,609	1,369,169
TOTAL LIABILITIES	4,490,060	-	140,670	4,630,730
FUND BALANCES:				
Nonspendable				
Prepaid Expenses	15,872	-	2,292	18,164
Inventory	6,191	-	12,444	18,635
Restricted - Debt Service	-	638,216	-	638,216
Committed - Student Activities	-	-	165,854	165,854
Assigned				
Debt Service	185,250	-	-	185,250
Public Library	-	-	12,161	12,161
Capital Projects	-	-	409,918	409,918
School Lunch	-	-	19,756	19,756
Unassigned	766,654	-	-	766,654
TOTAL FUND BALANCES	973,967	638,216	622,425	2,234,608
TOTAL LIABILITIES AND FUND BALANCES	\$ 5,464,027	\$ 638,216	\$ 763,095	\$ 6,865,338

See accompanying notes to financial statements.

GLADSTONE AREA SCHOOLS

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION**

June 30, 2020

Total fund balances - governmental funds	\$ 2,234,608
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Amounts reported for governmental activities in the statement of net position is different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in the governmental funds. The cost of the assets is \$31,502,775, and the accumulated depreciation is \$16,817,972.

14,684,803

Deferred outflows of resources related to pensions

7,729,598

Deferred outflows of resources related to OPEB

1,834,750

Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the specific governmental funds. Long-term liabilities at year-end consist of the following:

Net pension liability	\$ (26,660,933)	
Net OPEB liability	(5,754,823)	
Bonds payable	(8,807,221)	
Bond premium	(511,124)	
Accrued interest on bonds and notes	(47,189)	
Compensated absences	(1,145,296)	
Early retirement payable	<u>(698,634)</u>	(43,625,220)

Deferred inflows of resources related to pensions

(1,036,907)

Deferred inflows of resources related to OPEB

(2,282,421)

Total net position - governmental activities

\$ (20,460,789)

See accompanying notes to financial statements.

GLADSTONE AREA SCHOOLS**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS**

For the year ended June 30, 2020

	General	Debt Service	Other Nonmajor Governmental Funds	Total Governmental Funds
REVENUES:				
Local Sources	\$ 1,519,655	\$ 1,634,478	\$ 523,575	\$ 3,677,708
State Sources	12,962,554	-	32,206	12,994,760
Federal Sources	475,300	-	475,479	950,779
Intermediate Sources	118,406	-	-	118,406
Other	-	-	-	-
TOTAL REVENUES	15,075,915	1,634,478	1,031,260	17,741,653
EXPENDITURES:				
Instruction:				
Basic Programs	7,794,320	-	-	7,794,320
Added Needs	1,519,731	-	-	1,519,731
Total Instruction	9,314,051	-	-	9,314,051
Support Services:				
Pupil	591,959	-	601,367	1,193,326
Instructional Staff	379,798	-	-	379,798
General Administration	343,536	-	-	343,536
School Administration	1,301,695	-	-	1,301,695
Business	248,165	-	-	248,165
Operation and Maintenance	1,285,953	-	-	1,285,953
Pupil Transportation	710,530	-	-	710,530
Activities Office	44,621	-	-	44,621
Outgoing Transfers	99,318	-	-	99,318
Community Services	-	-	107,687	107,687
Student Activities	-	-	237,882	237,882
Capital Outlay	24,140	-	-	24,140
Debt Service	186,270	1,560,154	39	1,746,463
Athletics and Bookstore	230,487	-	-	230,487
Total Support Services	5,446,472	1,560,154	946,975	7,953,601
TOTAL EXPENDITURES	14,760,523	1,560,154	946,975	17,267,652
EXCESS REVENUES (EXPENDITURES)	315,392	74,324	84,285	474,001
OTHER FINANCING SOURCES (USES):				
Interest Earned	45,456	12,376	5,652	63,484
Operating Transfers In	37,368	-	140,006	177,374
Operating Transfers Out	(140,006)	-	(37,368)	(177,374)
TOTAL OTHER FINANCING SOURCES (USES)	(57,182)	12,376	108,290	63,484
EXCESS REVENUES AND OTHER FINANCING SOURCES (EXPENDITURES AND OTHER USES)	258,210	86,700	192,575	537,485
Fund Balance, Beginning of Year (as previously stated)	715,757	551,516	290,141	1,557,414
Prior Period Adjustment	-	-	139,709	139,709
Fund balance, Beginning of Year (restated)	715,757	551,516	429,850	1,697,123
FUND BALANCE, END OF YEAR	\$ 973,967	\$ 638,216	\$ 622,425	\$ 2,234,608

See accompanying notes to financial statements.

GLADSTONE AREA SCHOOLS

**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCE
TO THE STATEMENT OF ACTIVITIES**

For the Year Ended June 30, 2020

Net change in fund balances - total governmental funds	\$ 537,485
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The change in fund balances reported for governmental activities in the statement of activities is different because:

Capital outlays are reported in the governmental funds as expenditures. However, in the statement of activities, the costs of those assets are allocated over their useful lives as depreciation expense. This is the amount by which depreciation expense exceeds capital outlay and the sale of fixed assets.

Capital outlays recorded as expenditures in governmental funds	24,140
Depreciation not reported in governmental funds	(899,446)

The issuance of long-term debt (e.g., bonds, notes and leases) provides current financial resources to governmental funds, while the repayment of the 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. This is the amount by which repayments exceeded proceeds:

Bond premium amortization	85,187
Principal payments on long-term debt	1,326,081

Revenues in the statement of activities that provide current financial resources are not reported as revenues in the specific governmental funds but rather as unearned revenues.	(194,042)
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In the statement of activities expenses for compensated absences and special termination benefits for early retirement are measured by the amounts earned during the year. In governmental funds, however, expenditures for these items are measured by the amount paid out during the year.	(899,730)
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Change in the pension expense for adjustments related to GASB #68	(2,293,557)
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Change in the OPEB expense for adjustments related to GASB #75	375,416
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Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized when the interest accrues, regardless of when it is due. The additional interest reported is a net result of these factors.

12,545

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	<u>\$ (1,925,921)</u>
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See accompanying notes to financial statements.

GLADSTONE AREA SCHOOLS

STATEMENT OF FIDUCIARY NET POSITION

June 30, 2020

	Private- Purpose Trusts	Custodial Funds
ASSETS:		
Cash and Equivalents	\$ 12,602	\$ 1,125,522
Accounts Receivable	14,320	-
Due from Other Funds	-	-
TOTAL ASSETS	<u>\$ 26,922</u>	<u>\$ 1,125,522</u>
LIABILITIES:		
Scholarships Payable	\$ 17,820	\$ -
Due to Other Funds	-	-
Due to Other Organizations	1,250	36,390
Deposit Payable	-	1,089,132
TOTAL LIABILITIES	<u>\$ 19,070</u>	<u>\$ 1,125,522</u>
NET POSITION		
Restricted for Scholarships	\$ 6,314	
Unrestricted	<u>1,538</u>	
TOTAL NET POSITION	<u>\$ 7,852</u>	

See accompanying notes to financial statements.

GLADSTONE AREA SCHOOLS

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

For the year ended June 30, 2020

	Private- Purpose Trusts
ADDITIONS:	
Gifts and Contributions	\$ 20,525
Interest Earned	183
TOTAL ADDITIONS	20,708
DEDUCTIONS:	
Scholarships Awarded	19,070
Miscellaneous	521
TOTAL DEDUCTIONS	19,591
CHANGE IN NET POSITION	1,117
Net Position, Beginning of Year	6,735
NET POSITION, END OF YEAR	\$ 7,852

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

GLADSTONE AREA SCHOOLS

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Gladstone Area Schools (The District) conform to accounting principles generally accepted in the United States of America as applicable to school districts. The following is a summary of the significant policies:

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*. Certain significant items in the statement include the following:

- A Management's Discussion and Analysis section providing an analysis of the District's overall financial position and results of operations.
- Financial statements prepared using the full accrual method of accounting for all of the District's activities.
- Fund financial statements that focus on the major funds of the District.

The District has also implemented GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*. The pronouncement defines revenue recognition for nonexchange transactions at the fund and governmental levels.

Reporting Entity – The School District is governed by an elected seven-member Board of Education. The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational and financial relationships that determine which of these governmental organizations are a part of the School District's reporting entity, and which organizations are legally separate component units of the School District. Based on application of the criteria, the School District has no component units.

District-wide Statements – The District-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all nonfiduciary activities of the primary government. Substantially all interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely, to a significant extent, on fees and charges for support. All of the School District's government-wide activities are considered governmental activities.

In the District-wide Statement of Net Position, the governmental activities column (a) is presented on a consolidated basis, (b) and is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District's net position is reported in three parts:

Net investment in capital assets – This category consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets.

GLADSTONE AREA SCHOOLS

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Restricted – This category consists of net position with constraints placed on the use of the assets either by (1) external groups such as creditors, grantors, contributors or laws or regulations of other governments; or (2) law through constitutional provisions of enabling legislation. There is \$638,216 of restricted net position in the Statement of Net Position due to the provisions of enabling legislation, and \$165,854 restricted by contributors.

Unrestricted – All other net positions that do not meet the definition of the categories listed above.

The District first utilizes restricted resources to finance qualifying activities.

The Statement of Activities reports both the gross and net cost of each of the District's functions. The District's functions are also supported by general government revenues (property taxes, certain intergovernmental revenues, fines, charges, etc.). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants. The net costs (by function) are normally covered by general revenue (property taxes, state and federal sources, interest income, and others).

The District does not allocate indirect costs. In creating the district-wide financial statements the District has eliminated interfund transactions.

The district-wide statements focus on the sustainability of the School District as an entity and the change in the District's net position resulting from the current year's activities.

Fund Financial Statements – The accounts of the District are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate self-balancing set of accounts that comprise its' assets, liabilities, fund balances, revenues and expenditures. Government resources are allocated and accounted for in the individual funds based upon the purposes for which they are to be spent and the means by which the spending activities are controlled. An emphasis is placed on major funds in the governmental category. The General Fund is always considered a major fund and the remaining funds of the District are considered major if they meet the following criteria:

- a. Total assets, deferred outflows, liabilities, deferred inflows, revenues or expenditures of the individual governmental fund is at least ten percent of the corresponding total for all funds of that category or type; and
- b. Total assets, deferred outflows, liabilities, deferred inflows, revenues or expenditures of the individual governmental fund is at least five percent of the corresponding total of all governmental funds combined.

The District reports the General Fund, and the Debt Service Fund as major based on those criteria.

GLADSTONE AREA SCHOOLS

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The various funds are grouped in the financial statements in this report into two broad fund categories and five generic fund types as follows:

Governmental Funds

General Fund - The General Fund is the general operating fund and, accordingly, it is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds - Special revenue funds are used to account for the activities of specific school service revenue sources such as the School Lunch Fund, Student Activities Fund and the Public Library Fund.

Capital Project Funds - Capital project funds are used to account for financial resources to be used specifically for the acquisition, construction, or major repair of major capital facilities or other capital assets, including equipment. The Major Maintenance Fund, Energy Bonds, the 2012 Bonds and the Technology Fund are the capital project funds of the School District.

Debt Retirement Funds - Debt retirement funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs.

Fiduciary Funds

Fiduciary funds are used to account for assets held by the school district in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. These include Private Purpose Trust Funds and Custodial Funds for the District.

Private-Purpose Trust Funds – Private-Purpose trust funds are used to account for the receipts and expenditures of assets held under a trust agreement. The Private-Purpose trust funds maintained by the District are the Scholarship Fund and the Health Services Fund.

Custodial Funds - Custodial funds are used to account for assets held by the District as trustee or agent for individuals, private organizations and other governmental units. The custodial funds maintained by the District are the Foundation Trust Fund, and the Energy Bond Trust Fund.

Measurement Focus and Basis of Accounting – The basis of accounting refers to the point at which revenues and expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates the timing of the measurements made regardless of the measurement focus.

The government-wide financial statements use the economic resources measurement focus.

Accrual Basis – Governmental activity in the government-wide financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

GLADSTONE AREA SCHOOLS

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Modified Accrual Basis – The governmental funds financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting revenues are recorded when the resource is both measurable and available. Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within sixty days after year-end. Expenditures are generally recognized when the related fund liability is incurred with certain exceptions, such as interest of general long-term debt, which is recognized when due.

Investments – Investments are recorded at fair market value.

Inventory – The General Fund of the District utilizes the purchase method for recording the inventories of materials and supplies. Under the purchase method, inventories are recorded as expenditures when they are acquired, regardless of when they are used.

The School Lunch Fund and the General Fund utilize the consumption method of recording the inventory of food and supplies held for resale, and accordingly, the inventory is recorded as an expenditure when it is used. This inventory is valued at the lower of cost (first-in, first-out) or market.

Capital Assets – The accounting and reporting treatment applied to capital assets depends on whether the assets are reported in the government-wide financial statements or the fund financial statements.

In the government-wide financial statements fixed assets are capitalized. All fixed assets are valued at historical cost or estimated historical cost if actual cost is unavailable. Donated fixed assets are recorded at their estimated fair market value at the date of donation.

Depreciation on all exhaustible fixed assets is recorded as an unallocated expense in the Statement of Activities with accumulated depreciation being reflected in the Statement of Net Position. Depreciation is provided for using the straight-line method over the estimated useful lives of the assets as follows:

Buildings and additions	20 - 50 years
Land improvements	15 - 20 years
Vehicles	8 years
Equipment	5 – 15 years

In the fund financial statements, fixed assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. The District maintains a \$5,000 capitalization threshold for fixed assets.

Deferred Outflows of Resources - In addition to assets, the statement of net position and/or balance sheet 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 pension and OPEB plan items that qualify for reporting in this category.

GLADSTONE AREA SCHOOLS

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Deferred Inflows of Resources - In addition to liabilities, the statement of net position and/or governmental funds balance sheet 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/fund balance that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. One of these items arises from the premium paid on the 2018 bond refunding. The other two items arise from the pension and OPEB plan and qualify for reporting in this category.

Fund Balance Classification: The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the District is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

Nonspendable: This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact. The District has classified prepaid items and inventories as being Nonspendable as these items are not expected to be converted to cash or are not expected to be converted to cash within the next year.

Restricted: This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation. The District has classified debt service resources as restricted as they can only be used for future servicing of the bonded debt of the District.

Committed: This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the Board of Education. These amounts cannot be used for any other purpose unless the Board removes or changes the specified use by taking the same type of action (ordinance or resolution) that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements. The District had committed resources of \$165,854 for student activities as of the fiscal year end.

Assigned: This classification includes amounts that are constrained by the District's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the District's superintendent. This classification also includes the remaining positive fund balance for all governmental funds except for the General Fund. The District has various assigned fund balances that are specifically identified on the face of the financial statements.

Unassigned: This classification includes the residual fund balance for the General Fund. The Unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of Assigned fund balance amounts.

For purposes of fund balance classification, expenditures are to be spent from restricted fund balances first (when appropriate), followed in order by assigned fund balance, committed fund balance and lastly, unassigned fund balance.

GLADSTONE AREA SCHOOLS

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Postemployment Benefits Other Than Pensions – For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of MPERS and additions to/deductions from MPERS fiduciary net position have been determined on the same basis as they are reported by MPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.

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

NOTE B – CASH AND EQUIVALENTS

The composition of cash and equivalents as reported in the Statement of Net Position and the Statement of Fiduciary Net Position is presented below:

Financial statement presentation:

Cash and Equivalents - Governmental Funds	\$ 4,094,226
Cash and Equivalents - Custodial Funds	1,125,522
Cash and Equivalents - Private Purpose Trusts	12,603
TOTAL	<u>\$ 5,232,351</u>

Composition of balances:

Imprest Cash	\$ 1,487
Deposits:	
Checking Accounts	3,820,968
Savings Accounts	1,409,896
TOTAL	<u>\$ 5,232,351</u>

Cash and cash equivalents consist primarily of short-term investments with an original maturity of three months or less and are carried at cost, which approximates fair value.

GLADSTONE AREA SCHOOLS

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

NOTE B – CASH AND EQUIVALENTS (continued)

Michigan statutes authorize the District to invest in bonds, other direct obligations and repurchase agreements of the United States, certificates of deposits, savings accounts, deposit accounts or receipts of a bank which is a member of the FDIC, commercial paper, bankers' acceptances of United States banks, obligations of the State of Michigan and its political subdivisions, external investment pools, and certain mutual funds.

Attorney General's Opinion No. 6168 states that public funds may not be deposited in financial institutions located in states other than Michigan.

Interest Rate Risk. The District carries no significant interest rate risk as all of its holdings are in bank accounts with a high degree of liquidity. The District's policies therefore do not address this risk.

Credit Risk. State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations with a maximum maturity of 270 days. As of year end the District did not hold any commercial paper.

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure the District's deposits may not be returned. At June 30, 2020 the District held \$5,482,297 in checking and savings accounts. Of this amount \$4,691,090 was uninsured and uncollateralized.

Concentration of Credit Risk. The District has no significant concentration of credit risk due to fact that its deposits are with several area banks. The District's policies therefore do not address this risk.

Foreign Currency Risk. The District has no foreign currency risk as it has no deposits or investments in foreign currency.

All deposits for the District are in accordance with statutory authority.

GLADSTONE AREA SCHOOLS

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

NOTE C – CAPITAL ASSETS

A summary of the changes in governmental capital assets is as follows:

	Balance June 30, 2019	Additions	Disposals	Balance June 30, 2020
Land (not being depreciated)	\$ 149,340	\$ -	\$ -	\$ 149,340
Land Improvements	371,267	-	-	371,267
Buildings and Improvements	28,314,106	24,140	-	28,338,246
Vehicles	1,314,037	-	-	1,314,037
Machinery and Equipment	1,329,886	-	-	1,329,886
Depreciable Assets	31,329,295	24,140	-	31,353,436
Total Assets	31,478,635	24,140	-	31,502,776
Accumulated Depreciation	(15,918,526)	(899,446)	-	(16,817,972)
Net Total	\$ 15,560,109	\$ (875,306)	\$ -	\$ 14,684,804

NOTE D - SCHOOL DISTRICT SCHOLARSHIP FUND

On March 17, 1997, the Gladstone Area School District entered into an agreement to create a charitable scholarship endowment within the Community Foundation for Delta County. The purpose of the fund is to benefit the education and development of graduates of the Gladstone Area School District through scholarships for college or post-secondary education. These assets no longer appear in the financial statements of the Gladstone Area School District. All assets of the fund will be repaid to the School District upon termination of the Community Foundation. Remaining cash in the Gladstone Area School's Scholarship Fund will be used for various miscellaneous scholarships.

NOTE E - ACCRUED FRINGE BENEFITS

The District, as part of the various employment contracts with its personnel, allows for sick and personal days. It also allows the accumulation of compensation hours for its teachers when acting as a substitute teacher. Each employment contract specifies an accumulation policy for these days, as follows:

Sick Leave - The various employment contracts with District personnel stipulate four different methods of accumulating and paying for unused sick leave.

Teachers - Twelve days are allowed annually, accumulative to 160 days. If a teacher meets certain termination criteria and has completed 10 years of service in the Gladstone School system, they become eligible to be paid for unused sick leave days up to a maximum of 160 days at a rate of 65% of their teacher daily salary, excluding schedule B compensation. Payments will be made over three years.

GLADSTONE AREA SCHOOLS

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

NOTE E - ACCRUED FRINGE BENEFITS (continued)

Non-Teaching Employees – Sick leave accumulates according to hours worked where 30 hours worked equals one hour of sick leave earned. There is no maximum. For employees hired before July 1, 1984, up to 120 accumulated days are payable in total at the employee's prevailing rate of pay upon retirement or death. Employees hired July 1, 1984 and thereafter are paid for one-half of their accumulated sick days (maximum accumulation of 120 days) multiplied by their prevailing rate of pay upon retirement or death.

Administrators - Fifteen days per year are allowed for all administrators, with a maximum accumulation of 180 days at any year end. Accumulated days are payable to administrators with 10 years employment upon severance, retirement or death. The amount payable is at a rate that varies from 60 percent to 85 percent of the administrator's daily rate of pay at retirement or death multiplied by the number of accumulated unused sick days up to a maximum of 180 days.

Superintendent – Fifteen days per year are allowed, accumulative to 180 days. Accumulated days are payable in total at 85% of the superintendent's actual rate of pay, upon severance, retirement or death.

The total unused sick leave earned as of June 30, 2020 has been calculated to be \$1,601,761. When subject to maximum days payable the amount is \$1,601,761. The accrued liability of \$239,587 represents the amount expected to be paid upon retirement or death for employees who have vested.

Personal Business Days - Teachers and administrators will be credited with three personal business days per school year, with an accumulation to a maximum of five days. Non-teaching employees will be credited with three personal days per school year. A teacher may elect to either receive a reimbursement for unused personal days, up to a maximum of five days at the rate of a substitute teacher's daily salary, or to carry two personal days to the next year. Teachers and administrators add unused personal days to accumulated sick leave. Non-teaching employees may carry two personal days over to the next fiscal year. The accrued liability for unused personal days as of June 30, 2020 amounted to \$27,948.

Compensation Hours – Teachers earn compensation hours when acting as a substitute teacher. The total compensation hours earned as of June 30, 2020 has been calculated to be \$33,069.

Early Retirement Incentive – Beginning with the year ended June 30, 2011, eligible employees have been allowed to participate in an early retirement incentive plan. The current employment contracts with teachers allow the option of early retirement to those employees who meet state requirements for retirement. Qualified retirees shall receive an early retirement incentive of up to \$1,150 per month for a period of up to five years. At June 30, 2020, 38 retirees were receiving early retirement incentive payments from early retirement incentive programs. The total estimated early retirement incentive liability under current employment contracts as of June 30, 2020 amounted to \$698,634.

GLADSTONE AREA SCHOOLS

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

NOTE F - UNEARNED REVENUE

Unearned revenues are those where asset recognition criteria have been met but for which revenue recognition criteria have not been met. Unearned revenue represents unexpended funds received or receivable from state and federal project grants. Unearned revenue as of June 30, 2020 consisted of the following:

General Fund:	
Durant	\$ 28,813
2% Grants	21,404
Personal Finance Curriculum	85,110
Other	<u>112,832</u>
TOTAL	<u>\$ 248,159</u>

NOTE G – SHORT-TERM DEBT

The District's short-term debt activity, used solely for the purpose of operating cash flow, was as follows:

	Balance June 30, 2019	Additions	Repayments	Balance June 30, 2020
Michigan Municipal Bond Authority	<u>\$ 2,020,333</u>	<u>\$ 3,240,000</u>	<u>\$ 3,012,333</u>	<u>\$ 2,248,000</u>

NOTE H – CHANGES IN GENERAL LONG-TERM DEBT

The following is a summary of the changes in general long-term debt for the year ending June 30, 2020:

	Energy Bonds	Obligation Bonds	Notes Payable	Fringe Benefits	Total
Beginning Balance	\$ 674,948	\$ 9,440,000	\$ 18,354	\$ 944,201	\$ 11,077,503
Additions	-	-	-	1,835,990	1,835,990
Retirements	<u>(107,727)</u>	<u>(1,200,000)</u>	<u>(18,230)</u>	<u>(936,260)</u>	<u>(2,262,217)</u>
Ending Balance	<u>\$ 567,221</u>	<u>\$ 8,240,000</u>	<u>\$ 124</u>	<u>\$ 1,843,931</u>	<u>\$ 10,651,276</u>

GLADSTONE AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS

June 30, 2020

NOTE H – CHANGES IN GENERAL LONG-TERM DEBT (continued)

At June 30, 2020 the School District's long-term debt consisted of the following:

General Obligation Bonds

February 26, 2014 issue used to refund the November 8, 2004 issue due in annual installments varying from \$275,000 to \$400,000 with the final principal payment being due on May 1, 2026. Interest is due semiannually at variable rates ranging from 2.0% to 3.5%.

\$ 1,800,000

January 10, 2018 issue used to refund the 2012 Building and Site Bonds and the 2008 Refunding Bonds. Due in annual installments varying from \$810,000 to \$1,235,000 with the final payment due on May 1, 2026. Interest is due semiannually at 4%.

6,440,000

TOTAL GENERAL OBLIGATION BONDS

\$ 8,240,000

Energy Bonds

Payable to bank, original issue of \$1,644,491, payable in annual installments of \$107,727, with the final payment due July 2024, not including interest earned on the deposits at .25%.

\$ 567,221

The estimated debt service requirements for principal to maturity as of June 30, 2020, with the exception of the accrued fringe benefits other than early retirement, are as follows:

Year Ending 6/30	Bonds Payable	Early Retirement Incentives	Principal Total	Interest Total
2021	1,352,727	185,250	1,537,977	315,138
2022	1,402,727	173,250	1,575,977	268,588
2023	1,452,727	140,800	1,593,527	219,938
2024	1,502,727	105,933	1,608,660	169,188
2025	1,557,727	64,533	1,622,260	115,600
2026-2029	<u>1,538,586</u>	<u>28,868</u>	<u>1,567,454</u>	<u>59,026</u>
TOTAL	<u><u>\$ 8,807,221</u></u>	<u><u>\$ 698,634</u></u>	<u><u>\$ 9,505,855</u></u>	<u><u>\$ 1,147,478</u></u>

GLADSTONE AREA SCHOOLS

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

NOTE H – CHANGES IN GENERAL LONG-TERM DEBT (continued)

Accrued Employee Benefits

The debt service requirements for accrued employee benefits (except for early retirement incentives) are dependent upon future employee retirements and terminations. Thus, future payments are unknown at June 30, 2020.

The Debt Service Fund accounts for the general obligation bonds, while the General Fund accounts for the early retirement incentive, and fringe benefits. The Energy Bond Trust accounts for the energy bonds.

NOTE I – INTERFUND ACTIVITY

During the year the District had interfund activity that was for operational purposes. The General Fund (major fund) transferred the following funds (all nonmajor funds): Technology Capital Projects Fund - \$35,000; Major Maintenance Capital Projects Fund - \$105,000; and School Lunch Fund - \$6. The School Lunch Fund transferred \$37,368 to the General Fund as required. For the government-wide financial statements this interfund activity has been eliminated.

As of the fiscal year end, the following nonmajor funds had amounts due to other funds: Public Library \$7,806, School Lunch \$83,518; Athletic Fund \$26,414. The General Fund (major fund) had \$179,066 due to other funds recorded at year end. The following nonmajor funds also had due from other funds at year end – Major Maintenance Capital Projects Fund \$183,402, Technology Capital Projects Fund \$113,402. These balances have been eliminated on the government-wide financial statements.

NOTE J - PROPERTY TAXES

Property taxes levied attach as an enforceable lien on property. Taxes are levied on December 1 and payable by February 28 of the subsequent year. The School District tax is collected by the various local tax collecting units (townships, cities, etc.). Any real property taxes that are delinquent at March 1 are purchased by the Delta County Delinquent Tax Revolving Fund, thereby reducing the School District taxes receivable to only those personal property taxes which are uncollected and delinquent. The District maximum tax rates are 18.00 mills per \$1,000 taxable value on non-homestead property for general operations and 6.20 mills per \$1,000 taxable value on both homestead and non-homestead property for debt retirement. The District also levies 6.00 mills on commercial personal property.

GLADSTONE AREA SCHOOLS

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

NOTE K – PENSION PLAN

Plan Description

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

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

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

The Systems' financial statements are available at www.michigan.gov/orsschools.

Benefits Provided

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

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

Contributions

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

GLADSTONE AREA SCHOOLS

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

NOTE K – PENSION PLAN (Continued)

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

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

Pension Contribution Rates		
<u>Benefit Structure</u>	<u>Member</u>	<u>Employer</u>
Basic	0.0 - 4.0%	18.25%
Member Investment Plan	3.0 - 7.0%	18.25%
Pension Plus	3.0 - 6.4%	16.46%
Pension Plus 2	6.20%	19.59%
Defined Contribution	0%	13.39%

Required contributions to the pension plan from the District were \$2,138,677 for the year ended September 30, 2019.

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

At June 30, 2020, the District reported a liability of \$26,660,933 for its proportionate share of the MPSERS net pension liability. The net pension liability was measured as of September 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 2018. The District's proportionate share of the net pension liability was determined by dividing each employer's statutorily required pension contributions to the system during the measurement period by the percent of pension contributions required from all applicable employers during the measurement period.

At September 30, 2019, the District's proportionate share percent was 0.0008050616 percent, which was an increase of .0000069292 percent from its proportion measured as of September 30, 2018.

GLADSTONE AREA SCHOOLS

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

NOTE K – PENSION PLAN (Continued)

For the year ended June 30, 2020 the District recognized pension expense of \$4,389,571. At June 30, 2020 the District reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 119,503	\$ 111,174
Changes of assumptions	5,220,230	-
Net difference between projected and actual earnings on pension plan investments	-	854,438
Changes in proportion and differences between District contributions and proportionate share of contributions	515,735	71,295
District contributions subsequent to the measurement date	1,874,130	-
Total	<u>\$ 7,729,598</u>	<u>\$ 1,036,907</u>

Contributions subsequent to the measurement date reported as deferred outflows of resources related to pensions resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Deferred (Inflows) and Deferred Outflows of Resources by Year (to be Recognized in Future Pension Expenses)	
Plan Year Ended September 30	Amount
2020	\$ 1,971,272
2021	1,517,674
2022	957,926
2023	371,689

GLADSTONE AREA SCHOOLS

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

NOTE K – PENSION PLAN (Continued)

Actuarial Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the District and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

Additional information as of the latest actuarial valuation follows:

Summary of Actuarial Assumptions

Valuation Date:	September 30, 2018
Actuarial Cost Method:	Entry Age, Normal
Wage Inflation Rate:	2.75%
Investment Rate of Return:	
MIP and Basic Plans (Non-Hybrid)	6.80%
Pension Plus Plan (Hybrid)	6.80%
Pension Plus 2 Plan (Hybrid)	6.00%
Projected Salary Increases:	2.75-11.55%, including wage inflation at 2.75%
Cost-of-Living Pension Adjustments:	3% Annual Non-Compounded for MIP Members
Mortality:	
Retirees:	RP-2014 Male and Female Healthy Annuitant Mortality Tables, scaled by 82% for males and 78% for females and adjusted for mortality improvements using projection scale MP-2017 from 2006.
Active Members:	P-2014 Male and Female Employee Annuitant Mortality Tables, scaled 100% and adjusted for mortality improvements using projection scale MP-2017 from 2006.

Notes:

- Assumption changes as a result of an experience study for the period 2012 through 2017 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2017 valuation. The total pension liability as of September 30, 2018, is based on the results of an actuarial valuation date of September 30, 2017, and rolled forward using generally accepted actuarial procedures, including the experience study.
- Recognition period for liabilities is the average of the expected remaining service lives of all employees in years: 4.4977
- Recognition period for assets in years is 5.0000
- Full actuarial assumptions are available in the 2019 MPSERS Comprehensive Annual Financial Report found on the ORS website at www.michigan.gov/orsschools.

GLADSTONE AREA SCHOOLS

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

NOTE K – PENSION PLAN (Continued)

Long-Term Expected Return on Plan Assets

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

Asset Class	Target Allocation	Long Term Expected Real Rate of Return*
Domestic Equity Pools	28.00%	5.50%
Private Equity Pools	18.00%	8.60%
International Equity	16.00%	7.30%
Fixed Income Pools	10.50%	1.20%
Real Estate and Infrastructure Pools	10.00%	4.20%
Absolute Return Pools	15.50%	5.40%
Short Term Investment Pools	2.00%	0.80%
Total	100.00%	

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

Rate of Return

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

Discount Rate

A discount rate of 6.80% was used to measure the total pension liability (6.80% for the Pension Plus plan, 6.0% for the Pension Plus 2 plan). This discount rate was based on the long term expected rate of return on pension plan investments of 6.80% (6.80% for the Pension Plus plan, 6.0% for the Pension Plus 2 plan). The projection of cash flows used to determine this discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

GLADSTONE AREA SCHOOLS

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

NOTE K – PENSION PLAN (Continued)

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

The following presents the District's proportionate share of the net pension liability, calculated using the discount rate of 6.80% (6.80% for the Pension Plus Plan and 6.0% for the Pension Plus 2 Plan), as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower or 1 percentage-point higher:

*Current Single Discount Rate Assumption		
*1% Decrease 5.80% / 5.80% / 5.0%	6.80% / 6.80% / 6.0%	*1% Increase 7.80% / 7.80% / 7.0%
\$ 34,660,919	\$ 26,660,933	\$ 20,028,670

**Discount rates listed in the following order: Basic and Member Investment Plan (MIP), Pension Plus, and Pension Plus 2.*

Michigan Public School Employees' Retirement System (MPERS) Fiduciary Net Position

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

Pension Payable

Pension payable consisted of \$142,583 in the General Fund, \$688 in the Library Fund and \$1,191 in the School Lunch Fund. This is a result of legally required contributions to the pension plan arising out of employee contract balances owed but unpaid as of June 30, 2020. These contributions are due to the pension plan within 7 business days after the pay period end date.

NOTE L POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

Plan Description

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

The System's health plan provides all retirees with the option of receiving health, prescription drug, dental and vision coverage under the Michigan Public School Employees' Retirement Act (1980 PA 300 as amended).

GLADSTONE AREA SCHOOLS

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

NOTE L POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (continued)

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

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

Benefits Provided

Benefit provisions of the postemployment healthcare plan are established by State statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions. Retirees have the option of health coverage, which, through 2012, was funded on a cash disbursement basis. Beginning fiscal year 2013, it is funded on a prefunded basis. The System has contracted to provide the comprehensive group medical, prescription drug, dental and vision coverage for retirees and beneficiaries. A subsidized portion of the premium is paid by the System with the balance deducted from the monthly pension of each retiree healthcare recipient. For members who first worked before July 1, 2008, (Basic, MIP-Fixed, and MIP Graded plan members) the subsidy is the maximum allowed by statute. To limit future liabilities of OPEB, 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 insurance as of that date. Dependents are eligible for healthcare coverage if they meet the dependency requirements set forth in Public Act 300, as amended.

Public Act 300 of 2012 granted all active members of MPSERS, who earned service credit in the twelve months ending September 30, 2012 or were on an approved professional services or military leave of absence on September 30, 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 were deposited into their 401(k) account.

GLADSTONE AREA SCHOOLS

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

NOTE L POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (continued)

Contributions

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

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

The OPEB contribution rates in effect for the fiscal year ended September 30, 2019 for the Premium Subsidy benefit plan was 3.0 percent employee and 7.93% employer. For the Personal Healthcare Fund (PHF) the contribution rates were 0.0% employee and 7.57% employer.

Required contributions to the OPEB plan for the District were \$550,494 for the year ended September 30, 2019.

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

At June 30, 2020, the District reported a liability of \$5,754,823 for its proportionate share of the MPSERS net OPEB liability. The net OPEB liability was measured as of September 30, 2019, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation rolled forward from September 2018. The District's proportion of the net OPEB liability was determined by dividing each employer's statutorily required OPEB contributions to the System during the measurement period by the percent of OPEB contributions required from all applicable employers during the measurement period. At September 30, 2019, the District's proportion was .0008017588 percent, which was an increase of .000006322 percent from its proportion measured as of October 1, 2018.

GLADSTONE AREA SCHOOLS

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

NOTE L POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (continued)

For the year ending June 30, 2020, the District recognized OPEB expense of \$464,536. At June 30, 2020, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 2,111,607
Changes of assumptions	1,246,954	-
Net difference between projected and actual earnings on OPEB plan investments	-	100,079
Changes in proportion and differences between District contributions and proportionate share of contributions	145,817	70,735
District contributions subsequent to the measurement date	441,979	-
Total	<u>\$ 1,834,750</u>	<u>\$ 2,282,421</u>

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

Deferred (Inflows) and Deferred Outflows of Resources by Year (to be Recognized in Future OPEB Expenses)	
Plan Year Ended September 30	Amount
2020	\$ (242,376)
2021	(242,376)
2022	(192,626)
2023	(131,131)
2024	(81,141)

GLADSTONE AREA SCHOOLS

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

NOTE L POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (continued)

Actuarial Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing the benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

Additional information as of the latest actuarial valuation follows:

Summary of Actuarial Assumptions

Valuation Date:	September 30, 2018
Actuarial Cost Method:	Entry Age, Normal
Wage Inflation Rate:	2.75%
Investment Rate of Return:	6.95%
Projected Salary Increases:	2.75 – 11.55%, including wage inflation at 2.75%
Healthcare Cost Trend Rate:	7.5% year 1 graded to 3.5% year 12

Mortality:

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

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

Other Assumptions:

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

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

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

GLADSTONE AREA SCHOOLS

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

NOTE L POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (continued)

Notes:

- 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 annual pension valuations beginning with the September 30, 2017 valuation. The total pension liability as of September 30, 2019, is based on the results of an actuarial valuation date of September 30, 2018, and rolled forward using generally accepted actuarial procedures, including the experience study.
- Recognition period for liabilities is the average of the expected remaining service lives of all employees in years: 5.7101
- Recognition period for assets in years is 5.0000
- Full actuarial assumptions are available in the 2019 MPSERS Comprehensive Annual Financial Report found on the ORS website at www.michigan.gov/orsschools.

Long-Term Expected Return on Plan Assets

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

Asset Class	Target Allocation	Long Term Expected Real Rate of Return*
Domestic Equity Pools	28.00%	5.50%
Private Equity Pools	18.00%	8.60%
International Equity	16.00%	7.30%
Fixed Income Pools	10.50%	1.20%
Real Estate and Infrastructure Pools	10.00%	4.20%
Absolute Return Pools	15.50%	5.40%
Short Term Investment Pools	2.00%	0.80%
Total	100.00%	

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

Rate of Return

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

GLADSTONE AREA SCHOOLS

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

NOTE L POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (continued)

Discount Rate

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

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

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

1% Decrease	Current Discount Rate	1% Increase
5.95	6.95%	7.95%
\$7,059,155	\$5,754,823	\$4,659,546

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

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

	Current Healthcare Cost	
1% Decrease	Trend Rate	1% Increase
\$4,613,111	\$5,754,823	\$7,059,000

OPEB Plan Fiduciary Net Position

Detailed information about the OPEB plan's fiduciary net position is available in the separately issued 2019 MPSERS CAFR, available on the ORS website at www.michigan.gov/orsschools.

Payables to the OPEB Plan

OPEB plan payable consisted of \$59,428 in the General Fund, \$287 in the Library Fund and \$497 in the School Lunch Fund. This is a result of legally required contributions to the OPEB plan arising out of employee contract balances owed but unpaid as of June 30, 2020. These contributions are due to the OPEB plan within 7 business days after the pay period end date.

GLADSTONE AREA SCHOOLS

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

NOTE M - STATE FOUNDATION REVENUE

For the fiscal year ended June 30, 1995 the State of Michigan adopted a foundation grant approach which provides for a specific annual amount of revenue per student based on a statewide formula. In previous years, the state utilized a district power equalizing approach. 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 year ended June 30, 2020, the foundation allowance was based on 10 percent of pupil membership count taken in February of 2019 and 90 percent of pupil membership count taken in October of 2019.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mils and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes that may be levied at a rate of up to 18 mils and up to 6 mils on commercial personal property. The State revenue is recognized during the foundation period (currently the fiscal year) and is funded through payments from October through August. The local revenue is recognized as outlined in Note J which discusses property taxes.

NOTE N - BUDGETS AND BUDGETARY ACCOUNTING

The School District follows the procedures below in establishing the budgetary data reflected in the financial statements.

1. In June, the superintendent submits to the School Board proposed operating budgets for the fiscal year commencing the following July 1. Proposed budgets include projected expenditures and the means of financing them.
2. An opportunity exists for public comment during the budget process during a public hearing.
3. At the June School Board meeting, the budgets for the ensuing year are legally enacted through adoption by the Board and reference thereto in the Board minutes.
4. The general statute governing District budgetary activity is the State of Michigan Uniform Budgeting and Accounting Act.
5. The Gladstone School District adopts its annual budgets on a program basis. The program is defined in a formal budget structure and glossary of terms adopted by Board action. The program budget structure consists of five levels of detail as follows:

Resource allocation
Major functional group
Department
Program
Activity

GLADSTONE AREA SCHOOLS

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

NOTE N - BUDGETS AND BUDGETARY ACCOUNTING (continued)

At each level of detail, governmental operations are summarized into expenditure account groups. Funding sources are also identified and adopted at each level of detail. Budgetary control exists at the most detailed level adopted by the Board, i.e., department, program, or activity level.

6. A detailed line item breakdown is prepared for each program, for the purpose of accounting control. Since each budget is adopted at a program level rather than the detailed line item level, transfers between line items are allowable without Board approval. Board approval is required for revision of any program budget.
7. Budgets for the General and Special Revenue Funds are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Budgeted amounts in the financial statements are as originally adopted or amended by the School Board. Any unexpended appropriations lapse at year-end.

NOTE O – RISK MANAGEMENT

The District is exposed to various risk of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. The District participates in a distinct pool of educational institutions within the State of Michigan for self-insuring property and casualty. The pool is considered a public entity risk pool. The District pays annual premiums to the pool for the respective insurance coverage. In the event the pool's total 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 assessments to make up the deficiency. The pool maintains reinsurance for claims in excess of \$500,000 for each occurrence with the overall maximum coverage being unlimited. The District has not been informed of any special assessments being required.

The District had no outstanding claims that exceeded the plan's limits and there has been no significant reduction in insurance coverage over the past three years. The District continues to carry commercial insurance for other risks of loss, including employee health and accident insurance.

NOTE P - OTHER COMMITMENTS AND CONTINGENCIES

The District has received significant assistance from state and federal agencies in the form of various grants. The disbursement of funds received under these programs generally requires compliance with the terms and conditions specified in the grant agreements and are subject to audit by the grantor agency. Any disallowed claims resulting from such audits could become a liability of the District. However, in the opinion of management, any disallowed claims will not have a material effect on any of the financial statements of the District as of June 30, 2020.

GLADSTONE AREA SCHOOLS

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

NOTE Q – ATHLETIC FUND

To be in compliance with the guidelines issued under GASB Statement Number 54 the District has combined the Athletic Fund with the General Fund. The Combining Balance Sheet and Combining Statement of Revenues, Expenditures and Changes in Fund Balance, as listed in the table of contents, reflect the activity for these two funds. Accordingly, all interfund activity between the Athletic and General Fund has been eliminated upon the combining of the funds. The Budgetary Comparison Schedule - General Fund does not include the Athletic Fund.

NOTE R – FORM R7120/GRANT AUDITOR REPORT RECONCILIATION

The amounts reported on the R7120 Grant Auditor Report reconcile with the amounts listed in these financial statements.

NOTE S – USDA COMMODITIES AGREEMENT

The amounts reported in these financial statements agree with the Recipient Entitlement Balance Report for the USDA Donated Food Commodities for the District.

NOTE T – CORONAVIRUS (COVID-19)

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

NOTE U – PRIOR PERIOD ADJUSTMENT

As of July 1, 2019, the School District adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No 84, Fiduciary Activities. As a result of this change, beginning net position of governmental activities and the Student Activities Fund was increased by \$139,709

REQUIRED SUPPLEMENTAL INFORMATION

GLADSTONE AREA SCHOOLS

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND**

For the year ended June 30, 2020

	Budgeted Amounts		Actual	Variance Favorable (Unfavorable)
	Original	Final		
REVENUES:				
Local Sources	\$ 1,638,619	\$ 1,853,440	\$ 1,485,656	\$ (367,784)
State Sources	12,718,756	13,262,634	12,962,554	(300,080)
Federal Sources	256,128	249,117	475,300	226,183
Intermediate Sources	54,086	18,087	118,406	100,319
TOTAL REVENUES	14,667,589	15,383,278	15,041,916	(341,362)
EXPENDITURES:				
Instruction:				
Basic Programs	7,721,676	7,892,489	7,794,320	98,169
Added Needs	1,610,408	1,585,597	1,519,731	65,866
Support Services:				
Pupil	518,070	611,581	591,959	19,622
Instructional Staff	305,649	387,562	379,798	7,764
General Administration	356,427	356,494	343,536	12,958
School Administration	1,336,702	1,342,631	1,301,695	40,936
Business Office	343,416	309,916	248,165	61,751
Operations and Maintenance	1,325,581	1,318,901	1,285,953	32,948
Pupil Transportation	675,742	736,881	710,530	26,351
Activities Office	57,397	54,005	44,621	9,384
Other	-	349	99,318	(98,969)
Capital Outlay	-	-	24,140	(24,140)
Debt Service:				
Principal	-	-	125,957	(125,957)
Interest	-	-	60,313	(60,313)
TOTAL EXPENDITURES	14,251,068	14,596,406	14,530,036	66,370
EXCESS REVENUES (EXPENDITURES)	416,521	786,872	511,880	(274,992)
OTHER FINANCING SOURCES (USES):				
Interest Earned	-	-	45,115	45,115
Operating Transfers In	-	15,000	37,368	22,368
Operating Transfers Out	(537,225)	(544,269)	(336,153)	208,116
TOTAL OTHER FINANCING SOURCES (USES)	(537,225)	(529,269)	(253,670)	275,599
NET CHANGE IN FUND BALANCES	(120,704)	257,603	258,210	607
Fund Balance, Beginning of Year	715,757	715,757	715,757	-
FUND BALANCE, END OF YEAR	\$ 595,053	\$ 973,360	\$ 973,967	\$ 607

GLADSTONE AREA SCHOOLS

SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY

For the year ended September 30, 2019

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Proportion of net pension liability	0.0805062%	0.0798132%	0.0784147%	0.07681341%	0.07488991%	0.07448%
Proportionate share of net pension liability	\$ 26,660,933	\$ 23,993,301	\$ 20,320,582	\$ 19,164,317	\$ 18,291,881	\$ 16,406,207
Covered employee payroll	\$ 7,001,327	\$ 6,872,056	\$ 6,597,679	\$ 6,535,562	\$ 6,388,473	\$ 6,269,009
Proportionate share of net pension liability as a percentage of covered employee payroll	26.26%	28.64%	32.47%	34.10%	34.93%	38.21%
Plan fiduciary net position as a percentage of total pension liability	60.31%	62.36%	64.21%	63.27%	63.17%	66.20%

GLADSTONE AREA SCHOOLS

SCHEDULE OF PENSION CONTRIBUTIONS

For the Year Ended June 30, 2020

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
SCHEDULE OF PENSION CONTRIBUTIONS						
For the year ended June 30, 2020	\$ 2,159,653	\$ 2,146,639	\$ 1,839,241	\$ 1,724,885	\$ 1,444,724	\$ 1,329,216
	<u>2,159,653</u>	<u>2,146,639</u>	<u>1,839,241</u>	<u>1,724,885</u>	<u>1,444,724</u>	<u>1,329,216</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered employee payroll	\$ 7,045,356	\$ 7,065,549	\$ 6,794,759	\$ 6,504,330	\$ 6,432,565	\$ 6,450,399
Contributions as a percentage of covered employee payroll	30.65%	30.38%	27.07%	26.52%	22.46%	20.61%

GLADSTONE AREA SCHOOLS

SCHEDULE OF PROPORTIONATE SHARE OF NET OPEB LIABILITY

For the year ended September 30, 2019

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Proportion of net OPEB liability (%)	0.08017588%	0.08080808%	0.07834991%
Proportionate share of net OPEB liability	\$ 5,754,823	\$ 6,423,395	\$ 6,938,254
Employer's covered payroll	\$ 7,001,327	\$ 6,872,056	\$ 6,597,679
Proportionate share of net OPEB liability as a percentage of covered employee payroll	121.66%	106.98%	95.09%
Plan fiduciary net position as a percentage of total OPEB liability	48.46%	42.95%	64.21%

GLADSTONE AREA SCHOOLS

SCHEDULE OF OPEB CONTRIBUTIONS

For the year ended June 30, 2020

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Statutorily required OPEB contributions	\$ 579,341	\$ 550,619	\$ 609,987
OPEB contributions in relation to statutorily required contributions	<u>579,341</u>	<u>550,619</u>	<u>609,987</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered employee payroll (OPEB)	\$ 7,045,356	\$ 7,065,549	\$ 6,794,759
OPEB Contributions as a percentage of covered employee payroll	8.22%	7.79%	8.98%

GLADSTONE AREA SCHOOLS

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2020

Changes of benefit terms: There were no changes of benefit terms in FY 2020.

Changes of assumptions: There were no changes of benefit assumptions in FY 2020.

OTHER SUPPLEMENTAL INFORMATION

GLADSTONE AREA SCHOOLS**COMBINING BALANCE SHEET
GENERAL AND ATHLETIC FUNDS**

June 30, 2020

	<u>General</u>	<u>Athletics and Bookstore</u>	<u>Total</u>
ASSETS:			
Cash and Equivalents	\$ 3,083,181	\$ 36,794	\$ 3,119,975
Accounts Receivable	2,321,989	-	2,321,989
Due from Other Funds	-	-	-
Prepaid Items	15,791	81	15,872
Inventories	-	6,191	6,191
	<u> </u>	<u> </u>	<u> </u>
TOTAL ASSETS	<u>\$ 5,420,961</u>	<u>\$ 43,066</u>	<u>\$ 5,464,027</u>
LIABILITIES:			
Accounts Payable	\$ 435,961	\$ 13,900	\$ 449,861
Notes Payable	2,248,000	-	2,248,000
Due to Other Funds	179,066	26,414	205,480
Interest Payable	-	-	-
Unearned Revenue	248,159	-	248,159
Accrued Payroll and Fringes	1,335,808	2,752	1,338,560
	<u> </u>	<u> </u>	<u> </u>
TOTAL LIABILITIES	<u>4,446,994</u>	<u>43,066</u>	<u>4,490,060</u>
FUND BALANCES:			
Nonspendable			
Prepaid Items	15,791	81	15,872
Inventories	-	6,191	6,191
Assigned			
Debt Service	185,250	-	185,250
Unassigned	772,926	(6,272)	766,654
	<u> </u>	<u> </u>	<u> </u>
TOTAL FUND BALANCES	<u>973,967</u>	<u>-</u>	<u>973,967</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 5,420,961</u>	<u>\$ 43,066</u>	<u>\$ 5,464,027</u>

See accompanying notes to financial statements.

GLADSTONE AREA SCHOOLS

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GENERAL AND ATHLETIC FUNDS**

For the year ended June 30, 2020

	General	Athletics and Bookstore	Total
REVENUES:			
Local Sources	\$ 1,485,656	\$ 33,999	\$ 1,519,655
State Sources	12,962,554	-	12,962,554
Federal Sources	475,300	-	475,300
Intermediate Sources	118,406	-	118,406
TOTAL REVENUES	15,041,916	33,999	15,075,915
EXPENDITURES:			
Instruction:			
Basic Programs	7,794,320	-	7,794,320
Added Needs	1,519,731	-	1,519,731
Total Instruction	9,314,051	-	9,314,051
Support Services:			
Pupil	591,959	-	591,959
Instructional Staff	379,798	-	379,798
General Administration	343,536	-	343,536
School Administration	1,301,695	-	1,301,695
Business Office	248,165	-	248,165
Operation and Maintenance	1,285,953	-	1,285,953
Pupil Transportation	710,530	-	710,530
Activities Office	44,621	-	44,621
Other	99,318	-	99,318
Capital Outlay	24,140	-	24,140
Debt Service	186,270	-	186,270
Athletics and Bookstore	-	230,487	230,487
Total Support Services	5,215,985	230,487	5,446,472
TOTAL EXPENDITURES	14,530,036	230,487	14,760,523
EXCESS REVENUES (EXPENDITURES)	511,880	(196,488)	315,392
OTHER FINANCING SOURCES (USES):			
Interest Earned	45,115	341	45,456
Operating Transfers In	37,368	196,147	233,515
Operating Transfers Out	(336,153)	-	(336,153)
TOTAL OTHER FINANCING SOURCES (USES)	(253,670)	196,488	(57,182)
EXCESS REVENUES AND OTHER FINANCING SOURCES (EXPENDITURES AND OTHER USES)	258,210	-	258,210
Fund Balance, Beginning of Year	715,757	-	715,757
FUND BALANCE, END OF YEAR	\$ 973,967	\$ -	\$ 973,967

See accompanying notes to financial statements.

GLADSTONE AREA SCHOOLS**COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS**

June 30, 2020

	Nonmajor Special Revenue Funds			Nonmajor Capital Project Funds				Total Nonmajor Governmental Funds
	School Lunch	Public Library	Student Activity	Technology Fund	Major Maintenance	Energy Bonds	2012 Bonds	
ASSETS:								
Cash and Equivalents	\$ 29,589	\$ 27,478	\$ 165,854	\$ -	\$ -	\$ 113,114	\$ -	\$ 336,035
Accounts Receivable	115,520	-	-	-	-	-	-	115,520
Due from Other funds	-	-	-	113,402	183,402	-	-	296,804
Prepaid Items	424	1,868	-	-	-	-	-	2,292
Inventory	12,444	-	-	-	-	-	-	12,444
TOTAL ASSETS	\$ 157,977	\$ 29,346	\$ 165,854	\$ 113,402	\$ 183,402	\$ 113,114	\$ -	\$ 763,095
LIABILITIES:								
Accounts Payable	\$ 18,737	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 18,737
Due to Other Funds	83,518	7,806	-	-	-	-	-	91,324
Accrued Payroll	23,098	7,511	-	-	-	-	-	30,609
TOTAL LIABILITIES	125,353	15,317	-	-	-	-	-	140,670
FUND BALANCES								
Nonspendable:								
Prepaid items	424	1,868	-	-	-	-	-	2,292
Inventory	12,444	-	-	-	-	-	-	12,444
Committed	-	-	165,854	-	-	-	-	165,854
Assigned								
Public Library	-	12,161	-	-	-	-	-	12,161
Capital projects	-	-	-	113,402	183,402	113,114	-	409,918
School Lunch	19,756	-	-	-	-	-	-	19,756
Unassigned	-	-	-	-	-	-	-	-
TOTAL FUND BALANCES	32,624	14,029	165,854	113,402	183,402	113,114	-	622,425
TOTAL LIABILITIES AND FUND BALANCES	\$ 157,977	\$ 29,346	\$ 165,854	\$ 113,402	\$ 183,402	\$ 113,114	\$ -	\$ 763,095

See accompanying notes to financial statements.

GLADSTONE AREA SCHOOLS

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL FUNDS**

For the year ended June 30, 2020

	Nonmajor Special Revenue Funds			Nonmajor Capital Project Funds				Total Nonmajor Governmental Funds
	School Lunch	Public Library	Student Activity	Technology Fund	Major Maintenance	Energy Bonds	2012 Bonds	
REVENUES:								
Local Sources	\$ 171,089	\$ 88,459	\$ 264,027	\$ -	\$ -	\$ -	\$ -	\$ 523,575
State Sources	23,198	9,008	-	-	-	-	-	32,206
Federal Sources	475,479	-	-	-	-	-	-	475,479
TOTAL REVENUES	669,766	97,467	264,027	-	-	-	-	1,031,260
EXPENDITURES:								
Support Services - Pupil:								
Food Services	601,367	-	-	-	-	-	-	601,367
Student Activities	-	-	237,882	-	-	-	-	237,882
Community Services:								
Library	-	107,687	-	-	-	-	-	107,687
Other	-	-	-	-	-	-	39	39
TOTAL EXPENDITURES	601,367	107,687	237,882	-	-	-	39	946,975
EXCESS REVENUES (EXPENDITURES)	68,399	(10,220)	26,145	-	-	-	(39)	84,285
OTHER FINANCING SOURCES (USES):								
Interest Earned	1,587	455	-	1,102	1,102	1,406	-	5,652
Operating Transfers In	6	-	-	35,000	105,000	-	-	140,006
Operating Transfers Out	(37,368)	-	-	-	-	-	-	(37,368)
TOTAL OTHER FINANCING SOURCES	(35,775)	455	-	36,102	106,102	1,406	-	108,290
NET CHANGE IN FUND BALANCES	32,624	(9,765)	26,145	36,102	106,102	1,406	(39)	192,575
Fund Balances, Beginning of Year, as previously stated	-	23,794	-	77,300	77,300	111,708	39	290,141
Prior Period Adjustment	-	-	139,709	-	-	-	-	139,709
Fund Balances, Beginning of Year, as Restated	-	23,794	139,709	77,300	77,300	111,708	39	429,850
FUND BALANCES, END OF YEAR	\$ 32,624	\$ 14,029	\$ 165,854	\$ 113,402	\$ 183,402	\$ 113,114	\$ -	\$ 622,425

See accompanying notes to financial statements.

GLADSTONE AREA SCHOOLS

**COMBINING STATEMENT OF NET POSITION
PRIVATE PURPOSE TRUSTS**

June 30, 2020

	Health Services	Scholarship	Totals
ASSETS:			
Cash and Equivalents	\$ 1,538	\$ 11,064	\$ 12,602
Accounts Receivable	-	14,320	14,320
Due from Other Funds	-	-	-
TOTAL ASSETS	<u>\$ 1,538</u>	<u>\$ 25,384</u>	<u>\$ 26,922</u>
LIABILITIES:			
Scholarships Payable	\$ -	\$ 17,820	\$ 17,820
Due to Other Funds	-	1,250	1,250
TOTAL LIABILITIES	<u>\$ -</u>	<u>\$ 19,070</u>	<u>\$ 19,070</u>
NET POSITION:			
Restricted for Scholarships	\$ -	\$ 6,314	\$ 6,314
Unrestricted	<u>1,538</u>	<u>-</u>	<u>1,538</u>
TOTAL NET POSITION	<u>\$ 1,538</u>	<u>\$ 6,314</u>	<u>\$ 7,852</u>

See accompanying notes to financial statements.

GLADSTONE AREA SCHOOLS

**COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
PRIVATE PURPOSE TRUSTS**

For the year ended June 30, 2020

	Health Services	Scholarship	Totals
ADDITIONS:			
Gifts and Contributions	\$ 420	\$ 20,105	\$ 20,525
Interest Earned	-	183	183
TOTAL ADDITIONS	420	20,288	20,708
DEDUCTIONS:			
Scholarships Awarded	-	19,070	19,070
Miscellaneous	521	-	521
TOTAL DEDUCTIONS	521	19,070	19,591
CHANGE IN NET POSITION	(101)	1,218	1,117
Net Position, Beginning of Year	1,639	5,096	6,735
NET POSITION, END OF YEAR	\$ 1,538	\$ 6,314	\$ 7,852

See accompanying notes to financial statements.

GLADSTONE AREA SCHOOLS

**COMBINING STATEMENT OF CHANGES
IN ASSETS AND LIABILITIES - CUSTODIAL FUNDS**

For the year ended June 30, 2020

	<u>Balances 6/30/2019</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balances 6/30/2020</u>
<u>FOUNDATION TRUST</u>				
ASSETS:				
Cash in Bank	<u>\$ 35,829</u>	<u>\$ 561</u>	<u>\$ -</u>	<u>\$ 36,390</u>
LIABILITIES:				
Due to Other Organizations	<u>\$ 35,829</u>	<u>\$ 561</u>	<u>\$ -</u>	<u>\$ 36,390</u>
<u>ENERGY BOND TRUST</u>				
ASSETS:				
Cash in Bank	<u>\$ 979,030</u>	<u>\$ 110,102</u>	<u>\$ -</u>	<u>\$ 1,089,132</u>
LIABILITIES:				
Deposit Payable	<u>\$ 979,030</u>	<u>\$ 110,102</u>	<u>\$ -</u>	<u>\$ 1,089,132</u>
<u>TOTAL CUSTODIAL FUNDS</u>				
ASSETS:				
Cash in Bank	<u>\$ 1,125,126</u>	<u>\$ 110,663</u>	<u>\$ -</u>	<u>\$ 1,125,522</u>
LIABILITIES:				
Due to Other Organizations	35,829	561	-	36,390
Deposit Payable	<u>979,030</u>	<u>110,102</u>	<u>-</u>	<u>1,089,132</u>
	<u>\$ 1,014,859</u>	<u>\$ 110,663</u>	<u>\$ -</u>	<u>\$ 1,125,522</u>

See accompanying notes to financial statements.

GLADSTONE AREA SCHOOLS

**SCHEDULE OF TAXABLE VALUATIONS
TAX RATES AND TAX LEVIES**

June 30, 2020

	<u>Taxable Valuation</u>	<u>Per \$1,000 Valuation</u>	<u>Tax Levy</u>
GENERAL FUND:			
(on Non-Homestead taxable valuation only)			
City of Gladstone	\$ 43,812,053	18.0000	\$ 788,617
Escanaba Township	25,933,811	18.0000	466,809
Brampton Township	<u>5,874,763</u>	<u>18.0000</u>	<u>105,746</u>
TOTALS	<u><u>\$ 75,620,627</u></u>	<u><u>18.0000</u></u>	<u><u>\$ 1,361,171</u></u>
(on commercial personal property)			
City of Gladstone	\$ 3,301,227	6.00	\$ 19,807
Escanaba Township	279,500	6.00	1,677
Brampton Township	<u>78,777</u>	<u>6.00</u>	<u>473</u>
TOTALS	<u><u>\$ 3,659,504</u></u>	<u><u>6.00</u></u>	<u><u>\$ 21,957</u></u>
DEBT RETIREMENT FUNDS:			
(on total taxable valuation)			
City of Gladstone	\$ 116,113,839	6.20	\$ 719,906
Escanaba Township	116,404,986	6.20	721,711
Brampton Township	<u>29,846,893</u>	<u>6.20</u>	<u>185,051</u>
TOTALS	<u><u>\$ 262,365,718</u></u>	<u><u>6.20</u></u>	<u><u>\$ 1,626,667</u></u>

See accompanying notes to financial statements.

COMPLIANCE SECTION



ANDERSON, TACKMAN & COMPANY, PLC
Certified Public Accountants

Kristine P. Berhow, CPA, Principal
Brandy M. Olson, CPA, Principal
Kathleen A. Ciantar, CPA, Principal

"A Regional Firm Within the Upper Peninsula of Michigan"

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
Gladstone Area Schools
Gladstone, Michigan

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

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Gladstone Area 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.



Certified Public Accountants
Escanaba, MI 49829

December 7, 2020



ANDERSON, TACKMAN & COMPANY, PLC
Certified Public Accountants

Kristine P. Berhow, CPA, Principal
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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

To the Board of Education
Gladstone Area Schools
Gladstone, Michigan

Report on Compliance for Each Major Federal Program

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

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

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

Report on Internal Control over Compliance

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

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

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

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



ANDERSON, TACKMAN & COMPANY, PLC
Certified Public Accountants
Escanaba, Michigan

December 7, 2020

GLADSTONE AREA SCHOOLS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

June 30, 2020

<u>FEDERAL GRANTOR/PASS THROUGH PROGRAM TITLE</u>	<u>Federal CFDA Number</u>	<u>Agency or Pass-Through Number</u>	<u>Award Amount</u>	<u>Prior Year Expenditures</u>	<u>Accrued (Deferred) Revenue 7/1/2019</u>	<u>Current Year Receipts</u>	<u>Current Year Expenditures</u>	<u>Current Year Revenue Recognized</u>	<u>Accrued (Deferred) Revenue 6/30/2020</u>	<u>Current Year Cash Transferred to Subrecipients</u>
<u>U.S. Department of Agriculture:</u>										
Child Nutrition Cluster:										
Received Directly:										
U.S.D.A Commodities - Entitlement	10.555	n/a	35,475	40,713	-	35,475	35,475	35,475	-	-
Passed Through the Michigan Department of Education:										
National School Breakfast Program 2018-2019	10.553	191970	5,612	-	-	5,612	5,612	5,612	-	-
National School Breakfast Program 2019-2020	10.553	201970	34,662	-	-	34,662	34,662	34,662	-	-
Total National School Breakfast Program	10.553		40,274	-	-	40,274	40,274	40,274	-	-
National School Lunch Program 2018-2019	10.555	191960	28,122	-	-	28,122	28,122	28,122	-	-
National School Lunch Program 2019-2020	10.555	201960	150,689	-	-	150,689	150,689	150,689	-	-
COVID-19 SFSP Unanticipated School Closure Program	10.555	200902	213,423	-	-	98,010	213,423	213,423	115,413	-
Total National School Lunch Program	10.555		392,234	-	-	276,821	392,234	392,234	115,413	-
Summer Food Service Program	10.559	190900	6,785		1,405	8,190	6,785	6,785	-	-
Summer Food Service Program	10.559	191090	711	-	147	858	711	711	-	-
Total Summer Food Service Program	10.559		7,496	-	1,552	9,048	7,496	7,496	-	-
Total Child Nutrition Cluster			475,479	40,713	1,552	361,618	475,479	475,479	115,413	-
TOTAL U.S. DEPARTMENT OF AGRICULTURE			475,479	40,713	1,552	361,618	475,479	475,479	115,413	-
<u>U.S. Department of Education:</u>										
Received Directly:										
Title V, Part C - Indian Education	84.060	n/a	26,983	-	-	20,211	26,983	26,983	6,772	-
Title I, Part A - Passed Through MDE:										
Title I, Part A 1819	84.010	191530	152,322	152,322	73,753	73,753	-	-	-	-
Title I, Part A 1920	84.010	201530	155,358	-	-	99,062	142,731	142,731	43,669	-
Total Title I, Part A -Passed Through MDE			307,680	152,322	73,753	172,815	142,731	142,731	43,669	-

See accompanying federal financial awards notes.

Title I, Regional Assistance - Passed Through DSISD										
Title I - Regional Assistance Grant 1920	84.010a	201570	240,597	-	-	119,821	240,597	240,597	120,776	-
Total Title I Programs			548,277	152,322	73,753	292,636	383,328	383,328	164,445	-
Title II, Part A - Passed Through MDE										
Title II, Part A 1819	84.367	190520	54,544	53,993	41,766	41,766	-	-	-	-
Title II, Part A 1920	84.367	200520	42,098	-	-	24,258	40,153	40,153	15,895	-
Total Title II, Part A	84.367		96,642	53,993	41,766	66,024	40,153	40,153	15,895	-
Title IV, Part A - Student Support & Academic Enrichment										
Passed Through MDE:										
Title IV, Part A 1819	84.358	190750	11,256	11,167	11,167	11,167	-	-	-	-
Title IV, Part A 1920	84.358	200750	20,971	-	-	7,101	20,844	20,844	13,743	-
Total Title IV, Part A	84.358		32,227	11,167	11,167	18,268	20,844	20,844	13,743	-
TOTAL U.S. DEPARTMENT OF EDUCATION			704,129	217,482	126,686	397,139	471,308	471,308	200,855	-
<u>U.S. Department of Health and Human Services:</u>										
Passed through the DSISD:										
Medicaid Outreach	93.778	n/a	3,992	1,612	-	3,992	3,992	3,992	-	-
TOTAL FEDERAL FINANCIAL ASSISTANCE			\$ 1,183,600	\$ 259,807	\$ 128,238	\$ 762,749	\$ 950,779	\$ 950,779	\$ 316,268	\$ -

See accompanying federal financial awards notes.

GLADSTONE AREA SCHOOLS

SCHEDULE OF FEDERAL FINANCIAL AWARDS NOTES

For the year ended June 30, 2020

NOTE A – OVERSIGHT AGENCY

The U.S. Department of Agriculture is the current year's oversight agency for the single audit as determined by the agency providing the largest share of the District's direct federal financial awards.

NOTE B – BASIS OF ACCOUNTING

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

NOTE C – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(1) Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

(2) The Gladstone Area Schools have not elected to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.

NOTE D – FEDERAL GRANT RECEIPTS

All federal grant receipts of the Gladstone Area Schools are included in the scope of this report.

NOTE E – FORM R7120/GRANT AUDITOR REPORT RECONCILIATION

The amounts reported on the R7120 Grant Auditor Report, reconcile with the Schedule of Expenditures of Federal Awards.

NOTE F – EXPENDITURE AGREEMENT

The expenditures in the Schedule of Expenditures of Federal Awards are in agreement with the amounts reported in the financial statements and the financial reports for the Gladstone Area Schools.

NOTE G – USDA COMMODITIES AGREEMENT

The amounts reported in the Schedule of Expenditures of Federal Awards agree with the Recipient Entitlement Balance Report for the USDA Donated Food Commodities for the Gladstone Area Schools.

GLADSTONE AREA SCHOOLS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the year ended June 30, 2020

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unmodified opinion on the financial statements of the Gladstone Area Schools.
2. No material weaknesses or significant deficiencies were disclosed during the audit of the financial statements that are required to be reported in the *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*.
3. There were no instances of noncompliance to the financial statements of the Gladstone Area Schools.
4. There were no material weaknesses disclosed during the audit of the major federal award programs to be reported in the *Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance*.
5. The auditor's report on compliance for the major federal award programs for the Gladstone Area Schools expresses an unmodified opinion.
6. There were no audit findings that are required to be reported in accordance with the Uniform Guidance.
7. The program tested as a major program was as follows:

Child Nutrition Cluster:	National School Breakfast #10.553
	National School Lunch Program #10.555
	USDA Commodities #10.555
	Summer Food Service Program #10.559
8. The threshold for distinguishing type A and B programs was \$750,000.
9. The Gladstone Area Schools does not qualify as a low-risk auditee.

GLADSTONE AREA SCHOOLS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the year ended June 30, 2020

B. FINANCIAL STATEMENT AUDIT FINDINGS

None.

GLADSTONE AREA SCHOOLS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the year ended June 30, 2020

C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS

None.



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Certified Public Accountants

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REPORT TO MANAGEMENT

To the Board of Education
Gladstone Area Schools
Gladstone, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Gladstone Area Schools for the year ended June 30, 2020. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, and the Uniform Guidance, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated July 7, 2020. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Matters

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Gladstone Area Schools are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2020, except for adopting GASB Statement No. 84, *Fiduciary Activities*. We noted no transactions entered into by Gladstone Area Schools during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

Management's estimate of the useful lives of fixed assets is based on experience with similar assets and the estimate of the net pension and OPEB obligation is based on information provided by the Michigan Public Schools Employee Retirement System (MPERS). We evaluated the key factors and assumptions used to develop the estimate of the useful lives of fixed assets and the assumptions and calculations used by MPERS in determining that it is reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were:

The disclosure of the Defined Benefit Retirement Plan – Michigan Public School Employees' Retirement System (MPERS), described in Note K of the financial statements, includes significant actuarial assumptions used in calculating the valuation. An actuarial company was hired by MPERS to prepare the annual actuarial valuation. The disclosures made in the notes to the financial statements were based on information included in that actuarial valuation.

The disclosure of the Other Post-Employment Benefits (OPEB) Plan, described in Note L of the financial statements, includes detailed information related to the post-employment health and other insurance benefits provided by MPERS to retirees and includes significant actuarial assumptions used in calculating the valuation. An actuarial company was hired by MPERS to prepare the annual actuarial valuation. The disclosures made in the notes to the financial statements were based on information included in that actuarial valuation.

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

Difficulties Encountered in Performing the Audit

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

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated December 7, 2020.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

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

Other Matters

We applied certain limited procedures to the Management's Discussion and Analysis, the budgetary comparison schedule for the General Fund and the pension and OPEB schedules, which are required supplementary information (RSI) that supplement the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

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

Comments, Recommendations, and Other Information

In planning and performing our audit of the financial statements of Gladstone Area Schools for the year ended June 30, 2020, we considered the District's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

During our audit we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and recommendations regarding those matters. This letter does not affect our report dated December 7, 2020, on the financial statements of Gladstone Area Schools.

Informational Items

GASB 87 – Leases

In June 2017, the Governmental Accounting Standards Board issued GASB Statement No. 87, *Leases*, which improves accounting and financial reporting for leases by governments. This statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease 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. The Summary section of the Statement states the following:

The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases 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 an 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.

A lease is defined as a contract that conveys control of the right to use another entity's nonfinancial asset (the underlying asset) as specified in the contract for a period of time in an exchange or exchange-like transaction. Examples of nonfinancial assets include buildings, land, vehicles, and equipment. Any contract that meets this definition should be accounted for under the leases guidance, unless specifically excluded in this Statement.

The provisions of this statement are effective for the District's financial statements for the 2021-2022 fiscal year, as amended by GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, issued as a result of COVID-19. The District should begin analyzing the impact the implementation of the standard will have on the District's funds.

GASB 94 – Public-Private and Public-Public Partnerships and Availability Payment Arrangements

The requirements of this Statement will improve financial reporting by establishing the definitions of public-private and public-public partnership arrangements (PPPs) and availability payment arrangements (APAs) and providing uniform guidance on accounting and financial reporting for transactions that meet those definitions. That uniform guidance will provide more relevant and reliable information for financial statement users and create greater consistency in practice. This Statement will enhance the decision usefulness of a government's financial statements by requiring governments to report assets and liabilities related to PPPs consistently and disclose important information about PPP transactions. The required disclosures will allow users to understand the scale and important aspects of a government's PPPs and evaluate a government's future obligations and assets resulting from PPPs.

Under this Statement, a PPP is defined as an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial assets, such as infrastructure or other capital assets (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. Under this Statement a PPP meets the definition of a service concession arrangement (SCA) if: (1) the operator collects and is compensated by fees from third parties; (2) the transferor determines or has the ability to modify or approve which services the operator is required to provide, to whom the operator is required to provide the services, and the prices or rates that can be charged for the services; and (3) the transferor is entitled to significant residual interest in the service utility of the underlying PPP asset at the end of the arrangement.

As defined in this Statement, an APA is an arrangement in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction.

The provisions of this statement are effective for the District's financial statements for the 2022-2023 fiscal year. The District should begin analyzing the impact the implementation of the standard will have on the District's funds.

GASB 96 – Subscription-Based Information Technology Arrangements

The requirements of this Statement will improve financial reporting by establishing a definition for subscription-based information technology arrangements (SBITAs) for government end users (governments) and providing uniform guidance for accounting and financial reporting for transactions that meet that definition. This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, Leases, as amended.

A SBITA is defined as a contract that conveys control of the right to use another party's (a SBITA vendor's) information technology (IT) software, alone or in combination with tangible capital assets (the underlying IT assets), as specified in the contract for a period of time in an exchange or exchange-like transaction. That definition and uniform guidance will result in greater consistency in practice. Establishing the capitalization criteria for implementation costs also will reduce diversity and improve comparability in financial reporting by governments. This Statement also will enhance the relevance and reliability of a government's financial statements by requiring a government to report a subscription asset and subscription liability for a SBITA and to disclose essential information about the arrangement. The disclosures will allow users to understand the scale and important aspects of a government's SBITA activities and evaluate a government's obligations and assets resulting from SBITAs.

The provisions of this statement are effective for the District's financial statements for the 2022-2023 fiscal year. The District should begin analyzing the impact the implementation of the standard will have on the District's funds.

Restriction on Use

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

Very truly yours,



Certified Public Accountants
Escanaba, Michigan

December 7, 2020

GLADSTONE AREA SCHOOLS

COMMENTS AND RECOMMENDATIONS

June 30, 2020

2020-01: Control Deficiency – Check Approval

Condition: A batch of account payable checks dated October 18, 2019 (#58754-58792) were not reviewed and approved by the board prior to issuance.

Criteria: The school's internal control policies, as required by the Michigan Public School Accounting Manual, require disbursements to be approved by the board prior to issuance.

Effect of the Condition: A batch of checks were issued without prior approval by the Board of Education.

Cause: A batch of checks were printed after the check register had been prepared for the board meeting. The check register for the following month also did not include the batch of checks. The accounts payable check register is usually pulled a day or two prior to the board meeting to allow sufficient time to manually format the report in Excel for board presentation.

Recommendation: The controls that have been established appear to be properly designed, however, we recommend the School review its process for preparing the check registers for board approval. When possible, reports should be used that are directly from the accounting software without the need to manually transfer the information to Excel or other programs for modification.

Management Response: We have reviewed the batch of checks to ensure the payments were proper. We will review our process and look for alternative reports, that do not require manual modification, and that will still provide adequate information on disbursements to the board for approval.