

**L'ANSE AREA SCHOOLS**  
**REPORT ON FINANCIAL STATEMENTS**  
**(with required supplementary and additional information)**  
**YEAR ENDED JUNE 30, 2020**

**L'ANSE AREA SCHOOLS**

**June 30, 2020**

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**ADMINISTRATION**

Superintendent/Principal..... Susan Tollefson  
School Principal..... Melissa Scroggs

**BOARD OF EDUCATION**

President..... Joan Bugni  
Vice President..... Jim Fedie  
Treasurer..... Edwin Gransell  
Secretary..... Christine Collins  
Trustee..... Allan Dantes  
Trustee..... Katie Waara  
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## TABLE OF CONTENTS

	Page
<b>INDEPENDENT AUDITOR'S REPORT</b> .....	5
<b>MANAGEMENT'S DISCUSSION AND ANALYSIS</b> .....	7
<b>BASIC FINANCIAL STATEMENTS</b>	
<u>District-wide Financial Statements:</u>	
Statement of Net Position.....	13
Statement of Activities.....	14
<u>Fund Financial Statements:</u>	
Governmental Funds:	
Balance Sheet.....	15
Reconciliation of the Balance Sheet to the Statement of Net Position - Governmental Funds.....	16
Statement of Revenues, Expenditures, and Changes in Fund Balances.....	17
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities - Governmental Funds.....	18
Statement of Fiduciary Net Position.....	19
Statement of Changes in Fiduciary Net Position.....	20
<b>NOTES TO FINANCIAL STATEMENTS</b> .....	21
<b>REQUIRED SUPPLEMENTARY INFORMATION</b>	
Budgetary Comparison Schedule - General Fund.....	43
Pension Requirements	
Schedule of the District's Proportionate Share of the Net Pension Liability.....	44
Schedule of the District's Contributions.....	44
OPEB Requirements	
Schedule of the District's Proportionate Share of Net OPEB Liability.....	45
Schedule of the District Contributions.....	45
Notes to the Required Supplementary Information.....	46
<b>OTHER SUPPLEMENTAL FINANCIAL INFORMATION</b>	
<u>Major Governmental Funds</u>	
General Fund - Schedules of Revenues, Expenditures, and Changes in Fund Balances.....	48
<u>Non-Major Governmental Funds</u>	
Combining Balance Sheets.....	50
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances.....	51
School Food Service Fund - Schedule of Revenues, Expenditures, and Changes in Fund Balances.....	52
Capital Projects Fund - Schedule of Revenues, Expenditures, and Changes in Fund Balances.....	53

**TABLE OF CONTENTS**  
**(Continued)**

Page

**OTHER SUPPLEMENTAL FINANCIAL INFORMATION (CONTINUED)**

Fiduciary Funds

Scholarship Trust Fund Activity.....	54
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**FEDERAL AWARDS PROGRAMS**

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 <i>Government Auditing Standards</i> .....	56
Independent Auditor’s Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance.....	58
Schedule of Expenditures of Federal Awards.....	60
Notes to the Schedule of Expenditures of Federal Awards.....	61
Schedule of Findings and Questioned Costs.....	62

**COMMUNICATIONS SECTION**

Communication with Those Charged With Governance.....	64
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# **RUKKILA | NEGRO AND ASSOCIATES**

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## **INDEPENDENT AUDITOR'S REPORT**

To the Board of Education  
L'Anse Area Schools  
L'Anse, 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 L'Anse Area Schools as of and for the year then ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

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

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

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

### **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of L'Anse 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.

## **Emphasis of Matter**

As described in Note O to the financial statements, during the year ended June 30, 2020, the District adopted the new accounting guidance of GASB Statement no. 84, Fiduciary Activities. As a result of implementing this pronouncement, the Statement of Changes in Fiduciary Net Position is a required statement which reports the increases and decreases of fiduciary funds and has been added to the financial statements. 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 information, and pension requirements on pages 7 through 12 and 43 through 46 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 District's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The combining, individual major, and nonmajor fund financial statements 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 and the schedule 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 a report dated November 25, 2020 on our consideration of the L'Anse Area Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the L'Anse Area Schools' internal control over financial reporting and compliance.

November 25, 2020

*Rukkila, Negro and Associates,  
Certified Public Accountants, PC*

**L'ANSE AREA SCHOOLS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2020**

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This section of the L'Anse Area Schools' annual financial report presents management's discussion and analysis of the District's financial performance during the year ended June 30, 2020. Please read it in conjunction with the District's financial statements, which immediately follows this section.

**Financial Highlights**

In the fiscal year, L'Anse Area Schools showed a decrease in student population, which reduced the full time equivalent (FTE) used for state funding calculations from 622.35 to 605.58 based on a three year blended average and funding per pupil increased from \$7,871 to \$8,111 which caused an overall increase in the total state unrestricted revenue of \$240. The state restricted grant revenue decreased by \$1,074.

The District decreased expenditures and transfers by \$33,934 from the prior year. The General fund balance increased by \$11,663 to \$2,045,267 during the fiscal year.

**Overview of the Financial Statements**

This annual report consists of four parts: Management's Discussion and Analysis (this section), the Basic Financial Statements, Required Supplementary Information, and Supplementary Information. The Basic Financial Statements include two kinds of statements that present different views of the District:

- The first two statements, the Statement of Net Position and the Statement of Activities, are *district-wide financial statements* that provide both short-term and long-term information about the District's overall financial status.
- The remaining statements are *fund financial statements* that focus on individual parts of the District, reporting the District's operations in more detail than the district-wide statements.
  - *Governmental funds statements* tell how basic services such as regular and special education were financed in the short term as well as what remains for future spending.
  - *Fiduciary funds statements* provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others.

The Basic Financial Statements also include Notes to Financial Statements that explain the information in the Basic Financial Statements and provide more detailed data; Required Supplementary Information includes pension and OPEB information schedules; Other Supplementary Information follows and includes combining and individual fund statements and schedules.

**District-wide Statements**

The district-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Position includes all of the District's assets, deferred outflows of resources, liabilities and deferred inflow of resources. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The two district-wide statements report the District's net position, and how they have changed. Net position the difference between the District's assets, deferred outflows of resources, liabilities, and deferred inflow of resources is one way to measure the District's financial health or position.

- Over time, increases or decreases in the District's net position are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the District's overall health, one should consider additional non-financial factors such as changes in the District's property tax-base and the condition of school buildings and other facilities.

**L'ANSE AREA SCHOOLS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2020**

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In the district-wide financial statements, the District's activities are presented as follows:

- *Governmental activities:* The District's basic services are included here, such as regular and special education, instructional support, transportation, administration, community services, food service and athletics. State aid and property taxes finance most of these activities.

**Fund Financial Statements**

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds - not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

- Some funds are required by state law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes (like repaying debt, and its capital projects funds) or to show that it is properly using certain revenues (like school lunch).

The District has two kinds of funds.

- **Governmental funds** - Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the District-wide statements, we provide additional information with the governmental funds statements that explain the relationship (or differences) between them.
- **Fiduciary funds** - The District is the trustee, or fiduciary, for assets that belong to others, such as the scholarship fund and the student activities funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. We exclude these activities from the District-wide financial statements because the District cannot use these assets to finance its operations.

Notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

Required supplementary information, other than Management's Discussion and Analysis, provides information about the required budgetary comparison information on the General Fund.

Government-Wide Financial Analysis

Net position serves as an indicator of the District's financial position and overall performance. As shown on the following table, total liabilities exceeded assets by \$7,540,866 for the District's primary government.

Net investment in capital assets (land, building, and equipment) make up the largest portion of the District's total net position. These capital assets are used to provide services to the general public and are not available for future spending. Even though net investment in capital assets is reported net of related debt, the resources needed to repay this debt must be provided from other sources, since the capital assets cannot be used to liquidate these liabilities.



**L'ANSE AREA SCHOOLS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2020**

There were no significant changes in total assets or total liabilities from prior year.

	<b>Net Position</b>	
	<u>2020</u>	<u>2019</u>
Assets		
Current assets	\$ 3,994,504	\$ 4,046,681
Capital assets - Net	6,947,135	6,854,375
Total assets	<u>10,941,639</u>	<u>10,901,056</u>
Deferred outflows of resources	3,973,127	3,801,798
Liabilities		
Current liabilities	1,380,502	1,480,097
Noncurrent liabilities	4,321,816	4,827,182
Net pension and OPEB liabilities	<u>15,096,875</u>	<u>14,132,692</u>
Total liabilities	<u>20,799,193</u>	<u>20,439,971</u>
Deferred inflows of resources	1,656,439	1,722,469
Net position		
Net investment in capital assets	2,810,624	2,223,344
Restricted	285,518	485,330
Unrestricted	<u>(10,637,008)</u>	<u>(10,168,260)</u>
Total net position	<u>\$ (7,540,866)</u>	<u>\$ (7,459,586)</u>

As shown on the following table, governmental activities changed the District's net position by \$(81,280). The current to prior year change in governmental activities is due to an decrease in overall revenues of \$134,513 mainly due to decreases in grants and unrestricted state aid and an increase in overall expenditures of \$469,213 with increases in instruction, supporting service and food service.

	<b>Change in Net Position</b>	
	<u>2020</u>	<u>2019</u>
Program Revenues		
Charges for services	\$ 250,412	\$ 111,004
Grants and contributions	2,183,803	2,287,721
General Revenues		
Property taxes	1,868,022	1,844,441
State foundation allowance	3,492,941	3,579,679
Other	<u>286,187</u>	<u>393,033</u>
Total revenues	<u>8,081,365</u>	<u>8,215,878</u>
Functions/program expenses		
Instruction	4,815,166	4,609,593
Support services	2,572,043	2,402,438
School food services	413,620	313,047
Athletics	154,534	165,400
Student activities	44,146	-
Community services	37,472	64,552
Interest on long-term debt	123,447	136,224
Other debt service	<u>2,217</u>	<u>2,178</u>
Total expenses	<u>8,162,645</u>	<u>7,693,432</u>
Change in net position	(81,280)	522,446
Net position - Beginning, restated	<u>(7,459,586)</u>	<u>(7,982,032)</u>
Net position - Ending	<u>\$ (7,540,866)</u>	<u>\$ (7,459,586)</u>

**L'ANSE AREA SCHOOLS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2020**

**Governmental Funds:** The focus of the District's governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the District's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

The following table highlights the District's General Fund activities:

	2020	% of total	2019	% of total
<b>Revenues</b>				
Local sources	\$ 1,474,496	21.0 %	\$ 1,478,252	20.2 %
Intermediate sources	57,559	0.8 %	80,276	1.1 %
Unrestricted state aid	3,470,383	49.4 %	3,558,227	48.7 %
Restricted grants	1,078,249	15.4 %	1,079,323	14.8 %
Federal grants	820,052	11.7 %	939,643	12.9 %
Other financing sources	121,188	1.7 %	175,171	2.3 %
<b>Total revenues</b>	<b>\$ 7,021,927</b>	<b>100.0 %</b>	<b>\$ 7,310,892</b>	<b>100.0 %</b>
<b>Expenditures</b>				
Instruction - basic program	\$ 3,232,840	46.1 %	\$ 3,180,041	45.1 %
Instruction - added needs	956,813	13.6 %	1,131,680	16.1 %
Pupil services	224,424	3.2 %	233,299	3.3 %
Instructional staff	41,297	0.6 %	60,548	0.9 %
General administration	279,982	4.0 %	282,207	4.0 %
School administration	446,097	6.4 %	373,718	5.3 %
Business-fiscal services	151,316	2.2 %	138,760	2.0 %
Operation & maintenance	643,488	9.2 %	707,801	10.0 %
Pupil transportation	424,704	6.1 %	324,794	4.6 %
Community services	37,472	0.5 %	64,552	0.9 %
Athletics	133,220	1.9 %	165,131	2.3 %
Technology	140,724	2.0 %	125,313	1.8 %
Other financing uses	297,887	4.2 %	256,354	3.7 %
<b>Total expenditures</b>	<b>\$ 7,010,264</b>	<b>100.0 %</b>	<b>\$ 7,044,198</b>	<b>100.0 %</b>

**Significant Transactions and Changes in Individual Funds**

The overall financial position of the individual Governmental funds of the District increased by \$47,418 from the previous year. A comparison of revenues/transfers, expenditures/transfers and fund balances is as follows:

	2020	2019	Change
<b>General Fund</b>			
Revenues/Transfers	\$ 7,021,927	\$ 7,310,892	\$ (288,965)
Expenditures/Transfers	\$ 7,010,264	\$ 7,044,198	\$ (33,934)
Fund Balance	\$ 2,045,267	\$ 2,033,604	\$ 11,663
<b>Debt Service Fund</b>			
Revenues/Transfers	\$ 469,405	\$ 481,962	\$ (12,557)
Expenditures/Transfers	\$ 476,117	\$ 473,778	\$ 2,339
Fund Balance	\$ 150,943	\$ 157,655	\$ (6,712)
<b>Capital Projects Funds</b>			
Revenues/Transfers	\$ 303,420	\$ 240,377	\$ 63,043
Expenditures/Transfers	\$ 276,785	\$ 304,196	\$ (27,411)
Fund Balance	\$ 317,427	\$ 290,792	\$ 26,635

**L'ANSE AREA SCHOOLS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2020**

Food Service Fund						
Revenues/Transfers	\$	431,099	\$	320,321	\$	110,778
Expenditures/Transfers	\$	391,464	\$	334,189	\$	57,275
Fund Balance	\$	58,040	\$	36,883	\$	21,157
Student Activity Fund						
Revenues/Transfers	\$	38,821	\$	-	\$	38,821
Expenditures/Transfers	\$	44,146	\$	-	\$	44,146
Fund Balance	\$	42,325	\$	-	\$	42,325

General Fund: The General Fund showed a decrease in revenues of \$288,965. Local revenue decreased by \$4,118. State unrestricted revenue decreased by \$87,844 and restricted decreased by \$1,074. Federal revenue decreased by \$119,246.

Total expenditures and transfers decreased by \$33,934.

Debt Service Fund: Debt service showed a decrease in revenues of \$12,557

Capital Projects Funds: The increase in revenues in the Capital Projects Fund of \$63,043 was from contributions district improvements. There were site improvements throughout the district in connection with the sinking fund activities noting a decrease in expenses of \$27,411.

School Food Service Fund: Due to the COVID-19 pandemic shutdown, the food service program changed. Meals were given to any child under the age of 18, free of charge. The federal reimbursement rate for this program is higher than the normal program run during the year, resulting in more federal revenue. As a result of providing meals to many children, expenses increased as well.

Student Activity Fund: Comparatives from previous year are non-applicable in current year because this is the first year the fund is being reported.

**General Fund Budgetary Highlights**

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the annual budget prior to the start of the fiscal year. Any amendments to the original budget must be approved by the Board prior to the close of the fiscal year on June 30.

For the fiscal year ended June 30, 2020, the original budget was adopted in June 2019. The original budget is adopted two months before school is in session. We have many unknowns such as the number of students we will have for the year. Since much of the District's revenue is determined based on the number of students enrolled, this unknown could have a significant impact on the budget. Often there are a number of unforeseen events that occur throughout the year that impact the budget and/or cause budget variances. The District adopted its final budget in June 2020.

	Budgeted Amounts		Actual	Variance Final to Actual	% Variance
	Original	Final			
Revenues	\$ 6,774,477	\$ 7,023,820	\$ 6,900,739	\$ (123,081)	(1.8)%
Expenditures					
Instruction	\$ 4,275,837	\$ 4,194,452	\$ 4,189,494	\$ 4,958	0.1 %
Support services	2,537,033	2,550,419	2,522,883	27,536	1.1 %
Total expenditures	\$ 6,812,870	\$ 6,744,871	\$ 6,712,377	\$ 32,494	0.5 %
Other financing sources (uses)	\$ (95,650)	\$ (196,075)	\$ (176,699)	\$ 19,376	(9.9)%

**L'ANSE AREA SCHOOLS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2020**

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The decrease in revenue is mainly due to the August 2020 State Aid Payment reduction. The revenue shortfall reduction was not known at the time of the final budget adoption in June.

The District expenditure budget had minimum variances.

**Capital Assets and Debt Administration**

Capital Projects Funds: The Capital Projects Funds are used for the purpose of setting aside money from the General Fund for future capital purchases e.g. building improvements and technology updates. By doing this, when a major capital purchase is needed, all the money does not have to come out of the General Fund at one time. Also included in Capital Projects is the Sinking Fund. There was a transfer into the capital projects fund from the general fund in the amount of \$150,000.

The District had additions totaling \$466,148 which consisted of building improvements, air conditioning in the library, planer for IE building, radio repeater, and two buses.

Additional information on the District’s capital assets can be found on page of this report.

Long-term Debt – At the end of the current fiscal year, the Districts total long term debt was \$4,117,784. The District’s total debt balance decreased by \$47,418 during the fiscal year.

Additional information on the District’s long-term debt can be found on page 29 of this report.

**Known Facts, Decisions, or Conditions Having Significant Affect on Future Operations**

The table depicts a decrease of 16 students enrolled from the previous year, using the State Aid Membership Count.

<u>Year</u>	<u>Student Total</u>	<u>Change</u>
2015-2016	664	(10)
2016-2017	653	(11)
2017-2018	639	(14)
2018-2019	622	(17)
2019-2020	606	(16)

Our elected officials and administration consider many factors when setting the District’s fiscal year budget. One of the most important factors affecting the budget is our student count. The State foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil.

Approximately 50% of total General Fund revenues are from the foundation allowance. Under State law, the District cannot assess additional property tax revenue for general operations. As a result, district funding is heavily dependent on the State’s ability to fund local school operations.

**Contacting the District’s Financial Management**

This financial report is designed to provide our citizens and taxpayers with a general overview of the District’s finances. If you have questions about this report or need additional information, contact the L’Anse Area Schools Business Office, 201 North Fourth Street, L’Anse, Michigan 49946, (906)524-6121 [tbianco@laschools.us](mailto:tbianco@laschools.us).

**L'ANSE AREA SCHOOLS**  
**STATEMENT OF NET POSITION**  
**June 30, 2020**

Assets	
Cash and cash equivalents	\$ 1,331,965
Investments	1,567,206
Accounts receivable	10,560
Due from governmental units	1,036,933
Prepaid expenses	12,553
Inventories	35,287
Capital assets - Net	<u>6,947,135</u>
Total assets	<u>10,941,639</u>
Deferred outflows of resources	
Pension	3,080,226
OPEB	<u>892,901</u>
Total outflows of resources	<u>3,973,127</u>
Liabilities	
Accrued expenses	601,047
Other current liabilities	5,492
Due to governmental units	603,148
Unearned revenue	170,815
Accrued interest	18,727
Bonds payable, due within one year	503,256
Bonds payable, due in more than one year	3,614,528
Net pension liability	12,377,824
Net OPEB liability	2,719,051
Compensated absences	<u>185,305</u>
Total liabilities	<u>20,799,193</u>
Deferred inflows of resources	
Pension	546,716
OPEB	<u>1,109,723</u>
Total deferred inflows of resources	<u>1,656,439</u>
Net position	
Net investment in capital assets	2,810,624
Restricted	
Debt service	150,943
Capital projects	76,535
Food service	58,040
Unrestricted	<u>(10,637,008)</u>
Total net position	<u>\$ (7,540,866)</u>

The accompanying notes to the financial statements are an integral part of this statement.

**L'ANSE AREA SCHOOLS**  
**STATEMENT OF ACTIVITIES**  
**Year Ended June 30, 2020**

<u>Functions/Programs</u>	<u>Program Revenues</u>			<u>Governmental</u>
	<u>Expenditures</u>	<u>Charges for</u>	<u>Operating</u>	<u>Activities</u>
		<u>services</u>	<u>grants and</u>	<u>Net (Expense)</u>
			<u>contributions</u>	<u>Revenue and</u>
				<u>Changes in Net</u>
				<u>Position</u>
Government Activities				
Instruction and instructional support	\$ 4,815,166	\$ -	\$ 1,868,447	\$ (2,946,719)
Support services	2,572,043	-	7,500	(2,564,543)
School food service	413,620	211,043	216,153	13,576
Athletics	154,534	36,112	12,355	(106,067)
Student activities	44,146	-	38,821	(5,325)
Community services	37,472	3,257	-	(34,215)
Interest on long-term debt	123,447	-	40,527	(82,920)
Other debt service	2,217	-	-	(2,217)
Total governmental activities	<u>\$ 8,162,645</u>	<u>\$ 250,412</u>	<u>\$ 2,183,803</u>	<u>(5,728,430)</u>

General revenues:

Taxes, levied for general operations	1,279,823
Taxes, levied for debt service	406,303
Taxes, levied for sinking fund	144,687
Other taxes	37,209
Unrestricted state aid	3,492,941
Earnings on investments	26,434
Gain on sale of fixed assets	(9,859)
Other	168,052
Transfers	101,560
Total general revenues, transfers, & special items	<u>5,647,150</u>
Change in net position	(81,280)
Net position - Beginning of year, restated	<u>(7,459,586)</u>
Net position - End of year	<u>\$ (7,540,866)</u>

The accompanying notes to the financial statements are an integral part of this statement.

**L'ANSE AREA SCHOOLS**  
**GOVERNMENTAL FUNDS**  
**BALANCE SHEET**  
**June 30, 2020**

	<u>General Fund</u>	<u>Non-Major Funds</u>	<u>Total Governmental Funds</u>
<b>Assets</b>			
Cash and cash equivalents	\$ 794,281	\$ 537,684	\$ 1,331,965
Investments	1,567,206	-	1,567,206
Accounts receivable	9,440	1,120	10,560
Due from governmental units	969,948	66,985	1,036,933
Due from other funds	2,567	-	2,567
Inventories	27,147	8,140	35,287
Prepaid expenses	12,553	-	12,553
<b>Total assets</b>	<b><u>\$ 3,383,142</u></b>	<b><u>\$ 613,929</u></b>	<b><u>\$ 3,997,071</u></b>
<b>Liabilities</b>			
Accrued expenses	\$ 595,426	\$ 5,621	\$ 601,047
Due to other funds	-	2,567	2,567
Due to governmental units	571,634	31,514	603,148
Unearned revenue	170,815	-	170,815
Other current liabilities	-	5,492	5,492
<b>Total liabilities</b>	<b><u>1,337,875</u></b>	<b><u>45,194</u></b>	<b><u>1,383,069</u></b>
<b>Fund balances</b>			
<b>Non-spendable</b>			
Inventories	27,147	8,140	35,287
Prepays	12,553	-	12,553
<b>Restricted</b>			
Capital projects	-	49,900	49,900
Debt service	-	150,943	150,943
Capital projects	-	26,635	26,635
Committed for student school activities	-	42,325	42,325
<b>Assigned</b>			
Capital projects	-	290,792	290,792
Unassigned	2,005,567	-	2,005,567
<b>Total fund balances</b>	<b><u>2,045,267</u></b>	<b><u>568,735</u></b>	<b><u>2,614,002</u></b>
<b>Total liabilities and fund balances</b>	<b><u>\$ 3,383,142</u></b>	<b><u>\$ 613,929</u></b>	<b><u>\$ 3,997,071</u></b>

The accompanying notes to the financial statements are an integral part of this statement.

**L'ANSE AREA SCHOOLS**  
**GOVERNMENTAL FUNDS**  
**RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET POSITION**  
**June 30, 2020**

Fund Balance Reported in Governmental Funds	\$ 2,614,002
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and therefore are not reported in the funds	6,947,135
Net pension liability	(12,377,824)
Deferred outflows from the difference between pension changes of assumptions and contributions subsequent to the measurement date	3,080,226
Deferred inflows from the difference between projected and actual investment earnings of the pension plan	(546,716)
OPEB obligation	(2,719,051)
Deferred outflows from the difference between OPEB changes of assumptions and contributions subsequent to the measurement date	892,901
Deferred inflows from the difference between projected and actual investment earnings of the OPEB plan	(1,109,723)
Compensated absences are reported on the accrual method in the statement of activities, and recorded as an expenditure when financial resources are used in the governmental funds.	(185,305)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds	(4,117,784)
Accrued interest is not included as a liability in governmental funds	<u>(18,727)</u>
Net position of governmental activities	<u><u>\$ (7,540,866)</u></u>

The accompanying notes to the financial statements are an integral part of this statement.



**L'ANSE AREA SCHOOLS**  
**GOVERNMENTAL FUNDS**  
**STATEMENT OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCES**  
**Year Ended June 30, 2020**

	<u>General Fund</u>	<u>Non-Major Funds</u>	<u>Total</u>
Revenues			
Local sources	\$ 1,532,055	\$ 850,214	\$ 2,382,269
State sources	4,548,632	35,611	4,584,243
Federal sources	820,052	203,100	1,023,152
Total revenues	<u>6,900,739</u>	<u>1,088,925</u>	<u>7,989,664</u>
Expenditures			
Instruction	4,189,653	-	4,189,653
Supporting services	2,522,724	-	2,522,724
School food service	-	391,464	391,464
Student activities	-	44,146	44,146
Debt service	-	81,117	81,117
Capital Projects	-	276,785	276,785
Total expenditures	<u>6,712,377</u>	<u>793,512</u>	<u>7,505,889</u>
Excess (deficiency) of revenues over expenditures	<u>188,362</u>	<u>295,413</u>	<u>483,775</u>
Other financing sources (uses)			
Incoming transfers - other schools	101,560	-	101,560
Indirect recovery	18,478	(18,478)	-
Operating transfers in (out)	(153,820)	153,820	-
Bond payments	(144,067)	(395,000)	(539,067)
Gain (Loss) on disposals of fixed assets	1,150	-	1,150
Total other financing sources (uses)	<u>(176,699)</u>	<u>(259,658)</u>	<u>(436,357)</u>
Net change in fund balances	11,663	35,755	47,418
Fund balances - Beginning of year, restated	<u>2,033,604</u>	<u>532,980</u>	<u>2,566,584</u>
Fund balances - End of year	<u>\$ 2,045,267</u>	<u>\$ 568,735</u>	<u>\$ 2,614,002</u>

The accompanying notes to the financial statements are an integral part of this statement.

**L'ANSE AREA SCHOOLS**  
**GOVERNMENTAL FUNDS**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCES**  
**Year Ended June 30, 2020**

Net Change in Fund Balances - Total Governmental Funds	\$	47,418
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds do not record depreciation and report capital outlays as expenditures; in the statement of activities, these costs are capitalized and allocated over their estimated useful lives as depreciation		103,769
Accrued expenses are recorded in the statement of activities when incurred; they are not reported in governmental funds until paid		13,064
In the statement of activities, only the gain on sale of fixed assets are reported, whereas in the governmental funds, the proceeds from the sale increase financial resources.		(11,009)
The change in net pension liability amounts does not require the use of current resources and is not reported in the governmental funds		(921,248)
The change in OPEB obligation does not require the use of current resources and is not reported in the governmental funds		194,424
Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)		<u>492,302</u>
Change in net position of governmental activities	\$	<u><u>(81,280)</u></u>

The accompanying notes to the financial statements are an integral part of this statement.

**L'ANSE AREA SCHOOLS**  
**STATEMENT OF FIDUCIARY NET POSITION**  
**June 30, 2020**

	<u>Custodial Fund</u>
Assets	
Cash and equivalents	\$ 68,501
Investments	<u>257,691</u>
Total assets	<u>326,192</u>
Net position-restricted for scholarships	<u><u>\$ 326,192</u></u>

The accompanying notes to the financial statements are an integral part of this statement.

**L'ANSE AREA SCHOOLS**  
**FIDUCIARY FUND**  
**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION**  
**June 30, 2020**

	<u>Custodial Fund</u>
Additions	
Donations and investment earnings for scholarships	\$ <u>7,665</u>
Deductions	
Scholarships distributed	<u>10,000</u>
Net increase (decrease) in fiduciary net position	(2,335)
Net position - beginning	<u>328,527</u>
Net position - ending	<u>\$ <u>326,192</u></u>

The accompanying notes to the financial statements are an integral part of this statement.

**L'ANSE AREA SCHOOLS  
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2020**

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**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The basic financial statements of L'Anse Area Schools have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant District accounting policies are described below.

**REPORTING ENTITY**

The L'Anse Area Schools (the "District") is governed by the L'Anse Area Schools Board of Education (the "Board"), which has responsibility and control over all activities related to public school education within the District. The District receives funding from local, state and federal government sources and must comply with all the requirements of these funding source entities. However, the District is not included in any other governmental reporting entity as defined by the accounting principles generally accepted in the United State of America. Board members are elected by the public and have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters. In addition, the District's reporting entity does not contain any component units as defined in Governmental Accounting Standards Board Statement Numbers 14 and 39.

**GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the District. For the most part, the effect of inter-fund activity has been removed from these statements. All of the District's government-wide activities are considered governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. State Foundation Aid, certain revenue from the intermediate school district and other unrestricted items are not included as program revenues and are reported as general revenues.

In the government-wide statement of net position, the governmental activities column is presented on a consolidated basis 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 are reported in three parts – net investment in capital assets; restricted for debt service and special revenue funds; and unrestricted net position.

The District first utilizes restricted resources to finance qualifying activities.

The government-wide statement of activities reports both the gross and net cost of each of the District's functions. The functions are also supported by general government revenues (property taxes, certain intergovernmental revenues and other revenues). The statement of activities reduces gross expenses by related program revenues and operating grants. Program revenue must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The District does allocate indirect costs.

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

**L'ANSE AREA SCHOOLS  
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2020**

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**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

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

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

Fiduciary fund statements are also reported using the economic resources measurement focus and the accrual basis of accounting.

The District reports the following major 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. Athletic activities are reported in the General Fund.

Other Non-Major funds:

Debt Service Fund - The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

Capital Projects Fund - The Capital Projects Fund is used to account for all revenues and expenditures associated with the District's capital structures.

Special Revenue Funds - Special Revenue Funds are used to account for the activities of specific revenue sources such as the Food Service Fund.

Fiduciary Funds – Fiduciary Fund types are used to account for assets held by the District in a trustee capacity or as an agent for individuals, private organizations, other governments, and/or other funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District has one Fiduciary Fund the Scholarship Trust Fund.

Fiduciary funds are not included in the government-wide statements.

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

**L'ANSE AREA SCHOOLS  
 NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2020**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND BASIS OF PRESENTATION**

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

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

State Revenue - The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The Foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts and the local county treasurer. For the year ended June 30, 2020, the foundation allowance was based on pupil membership counts taken in February and October.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The State revenue is recognized during the foundation period and is funded through payments from October to August. Thus, the unpaid portion at June 30 is reported as due from other governmental units.

State revenue recognized during the foundation period (currently the fiscal year) is as follows:

Foundation		\$ 8,111.00
Less Local Support:		
Assumed Local Revenue	\$ 1,280,416.00	
Divided by General Education K-12 membership	<u>591.92</u>	
Calculated Local Support		<u>(2,163.16)</u>
Foundation Grant Allowance Per Pupil		<u><u>\$ 5,947.84</u></u>

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

*Other Accounting Policies*

Cash and Cash Equivalents – Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value. Pooled investment income is generally allocated to each fund using a weighted average of balance for the principal.

**L'ANSE AREA SCHOOLS  
 NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2020**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Property Taxes – Property tax revenue is recognized in the year for which taxes have been levied, provided they are available to finance expenditures of the current period in accordance with the National Council on Governmental Accounting Interpretation No. 3, Revenue Recognition - Property Taxes. Property taxes are levied by the District from the five townships of Bohemia, Covington, Duncan, Laird, and L’Anse on July 1 and become due September 14.

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

Fund	Mills
General fund - Non-homestead	18.00
Debt service fund - Homestead and non-homestead	2.96
Sinking fund - Homestead and non-homestead	1.00

Receivables and Payables – Activity between funds are reported as due to/from other funds.

All receivables, including property taxes receivable, are shown net of allowance for uncollectibles.

Inventory – The District utilizes the consumption method of recording inventories of materials and food supplies. Under the consumption method, inventories are recorded as expenditures when they are used. Inventory is valued at lower of cost or market.

Capital Assets – Capital assets, which include land, buildings, equipment, land improvements, technology, and vehicles are reported in the applicable governmental activities column in the government-wide financial statements. Fixed assets are defined by the government as assets with an initial individual cost of more than \$3,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset lives are not capitalized.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

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

Compensated Absences - The liabilities for accrued benefits reported in the district wide financial statements consisted of vacation and sick leave. The District, as part of the various employment contracts with its personnel, allows annual sick and vacation days. Each employment contract specifies an accumulation policy for unused sick and vacation days, as follows:

*Vacation Days* - Various employees of the District are allowed to accumulate vacation days in the year when they are earned.

*Sick Leave* - The various employment contracts with District personnel stipulate different methods of accumulating and paying for unused sick leave. In general, under all methods, employees are allowed to accumulate unused sick leave and receive a terminal leave payment for unused sick leave. In order to receive payment upon retirement, the employee must have worked in the District for at least five years.

Vacation	\$ -
Sick leave	185,305
Total accrued benefits	<u>\$ 185,305</u>



**L'ANSE AREA SCHOOLS  
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2020**

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**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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 amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position - Deferred outflows are reported in a separate section following assets, and deferred inflows are reported in a separate section following liabilities. The statement of net position then arrives at net position which includes the net effects of assets, deferred outflows of resources, liabilities, and deferred inflows of resources.

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 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 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.

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

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

**NOTE B - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

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

1. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing July 1. The operating budget includes proposed expenditures and means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
2. A public hearing is held to obtain taxpayer comments.
3. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978) enacted at a regular meeting by School Board approval. The Act provides that a local unit shall not incur expenditures in excess of the amount appropriated.
4. During the year the budget is monitored, and amendments to the budget resolution are made when deemed necessary.

**L'ANSE AREA SCHOOLS  
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2020**

**NOTE B - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Continued)**

5. Budget appropriations lapse at the end of the fiscal year.

In the body of the financial statements, the District’s actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. Violations, if any, for the General Fund are noted in the required supplementary information section.

**NOTE C - DEPOSITS AND INVESTMENTS**

At year-end, the District’s deposits and investments were reported in the basic financial statements in the following categories and the breakdown between deposits and investments for the District is as follows:

	Governmental Funds	Fiduciary Funds	Total Primary Government
Unrestricted cash	\$ 1,331,965	\$ -	\$ 1,331,965
Restricted cash	-	68,501	68,501
Total cash and cash equivalents	1,331,965	68,501	1,400,466
Investments	1,567,206	-	1,567,206
Restricted investments	-	257,691	257,691
Total cash and investments	<u>\$ 2,899,171</u>	<u>\$ 326,192</u>	<u>\$ 3,225,363</u>

Michigan law authorizes the District to deposit and invest in:

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

The District's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk - Bank Deposits – In the case of deposits, this is the risk that in the event of a bank failure, the District’s deposits may not be returned to it. State law does not require and the District does not have a policy for deposit custodial credit risk. As of June 30, 2020, \$691,022 of the District’s bank balance of \$1,441,022 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial Credit Risk - Investments - For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the District does not have a policy for investment custodial credit risk. The custodial credit risk of these investments cannot be determined.

**L'ANSE AREA SCHOOLS**  
**NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2020**

**NOTE C - DEPOSITS AND INVESTMENTS (Continued)**

Interest Rate Risk - In accordance with its investment policy, the District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the District's cash requirements. The District's investments held at year end do not have maturity dates.

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

At year end, the maturities of investments, including fiduciary funds, and the credit quality ratings of debt securities (other than the U.S. government) are as follows:

<u>Investment</u>	<u>Fair Value</u>	<u>Maturities</u>	<u>Rating</u>	<u>Rated by</u>
Michigan Liquid Asset Fund	\$ 1,567,206	*	AAAm	Standards & Poors
Corporate bonds and notes	43,549	12/05/22	Aa2	Moody's
Common stock	198,257		Not Rated	
Municipal bonds and notes	15,885	5/15/23	Aaa	Moody's
Total fair value	<u>\$ 1,824,897</u>			

\*Portfolio weighted average maturity  
1 day maturity equals .0027, one year equals 1.00

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

- Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority;
- Level 2 inputs consist of observable inputs other than quoted prices for identical assets;
- Level 3 inputs consist of unobservable inputs and have the lowest priority. The District uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments.

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Corporate bonds and notes	\$ 43,549	\$ -	\$ 43,549	\$ -
Common stock	198,257	198,257	-	-
Municipal bonds and notes	15,885	15,885	-	-
Total Investments	<u>\$ 257,691</u>	<u>\$ 214,142</u>	<u>\$ 43,549</u>	<u>\$ -</u>

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

**L'ANSE AREA SCHOOLS  
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2020**

**NOTE C - DEPOSITS AND INVESTMENTS (Continued)**

The District voluntarily invests certain excess funds in external pooled investment funds which included money market funds. One of the pooled investment funds utilized by the District is the Michigan Investment Liquid Asset Fund (MILAF). MILAF is an external pooled investment fund of "qualified" investments for Michigan school districts. MILAF is not regulated nor is it registered with the SEC. MILAF reports as of June 30, 2020, the fair value of the District's investments is the same as the value of the pool shares.

MILAF funds are considered external investment pools as defined by the GASB and as such are recorded at amortized cost which approximate fair value. The MILAF (MAX Class) fund requires notification of redemptions prior to 14 days to avoid penalties. These funds are not subject to the fair value disclosures.

There are no limitations or restrictions on participant withdrawals for the investment pools in the Michigan Liquid Asset Fund that are recorded at amortized cost except that there is a one-day minimum investment period and investment may not be redeemed for at least 14 calendar days with the exception of direct investments of funds distributed by the State of Michigan. Redemption made prior to the end of the applicable 14-day period are subject to a penalty equal to 15 days' interest on the amount so redeemed.

**NOTE D - INTER-FUND RECEIVABLES, PAYABLES, AND TRANSFERS**

Amounts due from (to) other funds represent the balance of monies due from or to other funds for expenditures made or fund balance transfers approved as of June 30, 2020 are as follows:

<u>Fund</u>	<u>Inter-fund Receivable</u>	<u>Fund</u>	<u>Inter-fund Payable</u>
General Fund	\$ 2,567	Non-Major Funds	\$ 2,567

  

<u>Fund</u>	<u>Transfer In</u>	<u>Fund</u>	<u>Transfer Out</u>
Non-Major Funds	\$ 153,820	General Fund	\$ 153,820

**NOTE E - CAPITAL ASSETS**

Capital Asset activity of the District's governmental activities was as follows:

	<u>Balance July 01, 2019</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2020</u>
Capital assets, not being depreciated				
Land	\$ 89,510	\$ -	\$ -	\$ 89,510
Capital assets, being depreciated				
Buildings and additions	9,394,179	\$ 281,142	\$ 18,175	9,657,146
Improvements other than building	1,713,477	16,935	-	1,730,412
Equipment	619,811	24,729	-	644,540
Furniture	66,450	-	-	66,450
Software	41,695	-	-	41,695
Vehicles	38,948	-	-	38,948
School buses	604,700	143,342	117,828	630,214
Subtotal	<u>12,479,260</u>	<u>\$ 466,148</u>	<u>\$ 136,003</u>	<u>12,809,405</u>

**L'ANSE AREA SCHOOLS**  
**NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2020**

**NOTE E - CAPITAL ASSETS (Continued)**

Accumulated depreciation				
Building and additions	3,723,023	\$ 234,227	\$ 7,166	3,950,084
Improvements other than building	1,010,314	59,284	-	1,069,598
Equipment	395,404	26,033	-	421,437
Furniture	48,819	2,600	-	51,419
Software	39,238	1,134	-	40,372
Vehicles	13,419	6,477	-	19,896
School buses	484,178	32,624	117,828	398,974
Subtotal	<u>5,714,395</u>	<u>\$ 362,379</u>	<u>\$ 124,994</u>	<u>5,951,780</u>
Net capital assets being depreciated	<u>6,764,865</u>			<u>6,857,625</u>
Net capital assets	<u>\$ 6,854,375</u>			<u>\$ 6,947,135</u>

Depreciation expense was charged to activities of the District as follows:

Governmental activities	
Instructional	\$ 170,109
Support Services	1,053
Operations	126,251
Transportation	34,024
Athletics	30,142
School Food Service	800
Total governmental	<u>\$ 362,379</u>

**NOTE F - ACCRUED EXPENSES**

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

<u>Accrued liabilities</u>	<u>General Fund</u>	<u>Non-Major Funds</u>	<u>Total</u>
Salaries payable	\$ 347,019	\$ 3,938	\$ 350,957
Accrued expenses	248,407	1,683	250,090
Total accrued liabilities	<u>\$ 595,426</u>	<u>\$ 5,621</u>	<u>\$ 601,047</u>

**NOTE G - LONG TERM DEBT**

2016 Refunding Bonds

On March 8, 2016, the School District issued general obligation bonds of \$4,995,000. Proceeds from this bond issue were used to advance refund the 2006 Refunding Bonds, dated December 20, 2005. The refunding was undertaken to reduce annual debt service payments. The net savings is \$896,035 and the net present value savings is \$611,696. The average annual savings is \$47,054, the net savings with bond term of 13 years.

Optional Redemption: The Bonds maturing on or after May 1, 2027, shall be subject to redemption at the option of the School District in such order of maturity as the District may determine and within a single maturity by lot, on any date on or after May 1, 2026 at par plus accrued interest to the date fixed for redemption.

**L'ANSE AREA SCHOOLS**  
**NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2020**

**NOTE G - LONG TERM DEBT (CONTINUED)**

Fiscal Year	November 1	May 1		Total
	Interest	Interest	Principal	
2020-2021	\$ 36,125	\$ 36,125	\$ 400,000	\$ 472,250
2021-2022	32,125	32,125	410,000	474,250
2022-2023	28,025	28,025	415,000	471,050
2023-2024	23,875	23,875	425,000	472,750
2024-2025	19,625	19,625	435,000	474,250
2025-2026	15,275	15,275	440,000	470,550
2026-2027	10,875	10,875	435,000	456,750
2027-2028	5,437	5,437	435,000	445,874
	<u>\$ 171,362</u>	<u>\$ 171,362</u>	<u>\$ 3,395,000</u>	<u>\$ 3,737,724</u>

**2011 School Improvement Bonds - Qualified Zone Academy Bonds (QZAB)**

On April 14, 2011, the District issued \$1,272,182 of Qualified Zone Academy Bonds (QZAB) for the purpose of building improvements including HVAC, energy efficiency, information technology upgrades, and installation of an eco-fuel system for the bus fleet. The bond matures in 2026 and bears an interest rate of 5.55% per annum. Interest payments started on November 1, 2011, and are payable semi-annually on May 1, and November 1 as indicated.

Fiscal Year	November 1	May 1		Total
	Interest	Interest	Principal	
2020-2021	\$ 20,057	\$ 20,057	\$ 103,255	\$ 143,369
2021-2022	17,192	17,192	109,453	143,837
2022-2023	14,155	14,155	115,907	144,217
2023-2024	10,938	10,938	123,625	145,501
2024-2025	7,508	7,508	131,625	146,641
2025-2026	3,855	3,855	138,919	146,629
	<u>\$ 73,705</u>	<u>\$ 73,705</u>	<u>\$ 722,784</u>	<u>\$ 870,194</u>

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

	Balance July 01, 2019	Increase	Decrease	Balance June 30, 2020	Current Portion
2016 Refunding Bonds	\$ 3,790,000	\$ -	\$ 395,000	\$ 3,395,000	\$ 400,000
2011 QZAB	820,086	-	97,302	722,784	103,256
	4,610,086	-	492,302	4,117,784	<u>\$ 503,256</u>
Accrued Interest	20,944	-	2,217	18,727	
Accrued Benefits	196,151	-	10,846	185,305	
Total	<u>\$ 4,827,181</u>	<u>\$ -</u>	<u>\$ 505,365</u>	<u>\$ 4,321,816</u>	

As of June 30, 2020, the aggregate maturities of long-term debt for the next eight years and thereafter are as follows:

Fiscal Year	Interest	Principal	Total
2020-2021	\$ 112,364	\$ 503,255	\$ 615,619
2021-2022	98,634	519,453	618,087
2022-2023	84,360	530,907	615,267
2023-2024	69,626	548,625	618,251
2024-2025	54,266	566,625	620,891
2025-2026	38,260	578,919	617,179
2026-2027	21,750	435,000	456,750
2027-2028	10,874	435,000	445,874
	<u>\$ 490,134</u>	<u>\$ 4,117,784</u>	<u>\$ 4,607,918</u>

**L'ANSE AREA SCHOOLS  
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2020**

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**NOTE H - MICHIGAN PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM (MPSERS) PENSION AND OPEB PLANS**

Plan Description

The Michigan Public School Employees' Retirement System (MPSERS/System) is a cost-sharing, multiple employer, state-wide, defined benefit public employee retirement plan governed by the State of Michigan (State) originally created under Public Act 136 of 1945, recodified and currently operating under the provisions of Public Act 300 of 1980, as amended. Section 25 of this act establishes the board's authority to promulgate or amend the provisions of the System. 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's health plan provides all eligible retirees with the option of receiving health, prescription drug, dental and vision coverage under the Michigan Public School Employees' Retirement Act (1980 PA 300 as amended).

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

The System's financial statements are available on the ORS website at [www.michigan.gov/orsschools](http://www.michigan.gov/orsschools).

Actuarial Assumptions

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

Additional information as of the latest actuarial valuation follows:

Valuation date	September 30, 2018
Actuarial cost method	Entry age, normal
Wage inflation rate	2.75
Investment rate of return:	
Pension	6.00%-6.80%
OPEB	7.15%
Projected salary increases	2.75 - 11.55%, including wage inflation at 2.75%
Cost-of-living pension adjustments	3% annual non-compounded for MIP members
Healthcare cost trend rate	7.5% Year 1 graded to 3.5% Year 12

**L'ANSE AREA SCHOOLS  
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2020**

**NOTE H - MICHIGAN PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM (MPSERS) PENSION AND OPEB PLANS (Continued)**

Mortality	Retirees: RP-2014 Male and Female Healthy Annuitant Mortality Tables, scaled by 82% for males and 78% for females and adjusted for mortality improvements using projection scale MP-2017 from 2006. Active members: RP-2014 Male and Female Healthy Employee Annuitant Mortality Tables, scaled by 100% and adjusted for mortality improvements using projection scale MP-2017 from 2006.
Other OPEB Assumptions:	
Opt out assumptions	21% of eligible participants hired before July 1, 2008 and 30% of those hired after June 30, 2008 are assumed to opt out of the retiree health plan
Survivor coverage	80% of male retirees and 67% of female retirees are assumed to have coverage continuing after the retiree's death
Coverage election at retirement	75% of male and 60% of female future retirees are assumed to elect coverage for 1 or more dependents.

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 and OPEB liability as of September 30, 2019, is based on the results of an actuarial valuation date of September 30, 2018, and rolled forward using generally accepted actuarial procedures, including the experience study.
- Recognition period for pension liabilities is the average of the expected remaining service lives of all employees in years which is 4.4977 for non-university employers.
- Recognition period for pension assets in years is 5.0000
- Recognition period for OPEB liabilities is the average of the expected remaining service lives of all employees in years which is 5.6018 for non-university employers.
- Recognition period for OPEB 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](http://www.michigan.gov/orsschools).

Long-Term Expected Return on Plan Assets

The long-term expected rate of return on pension plan and 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.

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



**L'ANSE AREA SCHOOLS  
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2020**

**NOTE H - MICHIGAN PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM (MPSERS) PENSION AND OPEB PLANS (Continued)**

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

\* Long term rate of return does not include 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 and OPEB plan investment net of pension plan and OPEB investment expense, was 5.14% and 10.75% respectively. 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 provided through non-university employers only). This discount rate was based on the long-term expected rate of return on pension plan investments of 6.80% (6.80% for the Pension Plus plan, 6.0% for the Pension Plus 2 plan). 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 pension plan's fiduciary net position and the OPEB plan's fiduciary net position were 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 OPEB plan investments was applied to all periods of projected benefit payments to determine the total pension liability and total OPEB liability.

PENSION PLAN

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.

**L'ANSE AREA SCHOOLS  
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2020**

**NOTE H - MICHIGAN PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM (MPSERS) PENSION AND OPEB PLANS (Continued)**

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

Contributions

Reporting units are required by Public Act 300 of 1980, as amended, to contribute amounts necessary to finance the coverage of members and retiree Other Post-Employment benefits (OPEB). Contribution provisions are specified by State statute and may be amended only by action of the State Legislature.

Employer contributions to the System are determined on an actuarial basis using the entry age normal actuarial cost method. Under the 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 September 30, 2018 valuation will be amortized over a 20-year period for fiscal year beginning October 1, 2018 and ending September 30, 2038.

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

Benefit Structure	<u>Pension Contribution Rates</u>	
	Member Rate	Employer
Basic	0.0 - 4.0%	18.25%
Member Investment Plan	3.0 - 7.0%	18.25%
Pension Plus	3.0 - 6.4%	16.46%
Pension Plus 2	6.2%	19.759
Defined Contribution	0.0%	13.39%

Required contributions to the pension plan from L'Anse Area Schools were \$992,920 for the year ended September 30, 2019.

Pension Liabilities

At June 30, 2020, the District reported a liability of \$12,377,824 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 30, 2018. The District's proportion of the net pension liability was determined by dividing each employer's statutorily required pension contributions to the system during the measurement period by the percent of pension contributions required from all applicable employers during the measurement period. At September 30, 2019 and 2018 the District's proportion was .03738% and .03724%, respectively.

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

For the year ended June 30, 2020, the District recognized total pension expense of \$1,930,749. This amount excludes contributions funded from state revenue Section 147c restricted to fund the MPSERS Unfunded Actuarial Accrued Liability (UAAL) Stabilization Rate.

**L'ANSE AREA SCHOOLS**  
**NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2020**

**NOTE H - MICHIGAN PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM (MPSERS) PENSION AND OPEB PLANS (Continued)**

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

	Deferred outflows of resources	Deferred inflows of resources
Difference between expected and actual experience	\$ 55,481	\$ 51,614
Changes of assumptions	2,423,587	-
Net difference between policies and actual earnings on pension plan investments	-	396,688
Changes in proportion and differences between employer contributions and proportionate share of contributions	57,117	98,414
District's contributions subsequent to the measurement date	544,041	-
Total	<u>\$ 3,080,226</u>	<u>\$ 546,716</u>

\$544,041 reported as deferred outflows of resources related to pensions resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2021.

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

Year Ending September 30	Amount
2020	\$ 803,021
2021	\$ 612,723
2022	\$ 403,267
2023	\$ 170,458

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

The following presents the District's proportionate share of the net pension liability, calculated using a discount rate of 6.80% for the Basic and Member Investment Plan, 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:

	1% Lower	Discount Rate	1% Higher
District's proportionate share of the net pension liability	\$ 16,091,963	\$ 12,377,824	\$ 9,298,674

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued 2019 MPSERS CAFR, available on the ORS website at [www.michigan.gov/orsschools](http://www.michigan.gov/orsschools).

Payable to the Pension Plan

At year end the District is current on all required pension plan payments. Amounts accrued at year end were \$160,771. These amounts represent current payments for June paid in July, accruals for summer pay primarily for teachers and the contributions due funded from state revenue Section 147c restricted to fund the MPSERS Unfunded Actuarial Accrued Liability (UAAL) Stabilization Rate.

**L'ANSE AREA SCHOOLS  
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2020**

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**NOTE H - MICHIGAN PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM (MPSERS) PENSION  
AND OPEB PLANS (Continued)**

OPEB PLAN

Benefits Provided

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

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

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

Contributions

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

Employer 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.

**L'ANSE AREA SCHOOLS  
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2020**

**NOTE H - MICHIGAN PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM (MPSERS) PENSION AND OPEB PLANS (Continued)**

The schedule below summarizes OPEB contribution rates in effect for fiscal year 2019.

Benefit Structure	OPEB Contribution Rates	
	Member Rate	Employer
Premium Subsidy	3.0%	7.93%
Personal Healthcare Fund	0.0%	7.57%

Required contributions to the OPEB plan from L'Anse Area Schools were \$260,098 for the year ended September 30, 2019.

OPEB Liabilities

At June 30, 2020, the District reported a liability of \$2,719,051 for its proportionate share of the 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 pension contributions required from all applicable employers during the measurement period. At September 30, 2019 and 2018 the District's proportion was .03788% and .03695%, respectively.

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

For the year ended June 30, 2020, the District recognized total OPEB expense of \$66,374. This amount excludes contributions funded from state revenue Section 147c restricted to fund the MPSERS Unfunded Actuarial Accrued Liability (UAAL) Stabilization Rate.

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
Difference between expected and actual experience	\$ -	\$ 997,697
Changes of assumptions	589,163	-
Net difference between policies and actual earnings on OPEB plan investments	-	47,286
Changes in proportion and differences between reporting using contributions and proportionate share of contributions	68,869	64,740
District's contributions subsequent to the measurement date	234,869	-
Total	<u>\$ 892,901</u>	<u>\$ 1,109,723</u>

\$234,869 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 pension liability in the year ended June 30, 2021.

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

**L'ANSE AREA SCHOOLS  
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2020**

**NOTE H - MICHIGAN PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM (MPSERS) PENSION AND OPEB PLANS (Continued)**

Year Ended September 30	Amount
2020	\$ (129,758)
2021	\$ (129,758)
2022	\$ (106,082)
2023	\$ (62,604)
2024	\$ (23,489)

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

The following presents District's proportionate share of the net OPEB liability calculated using the discount rate of 7.15%, as well as what District's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage higher:

	<u>1% Decrease</u>	<u>Discount Rate</u>	<u>1% Increase</u>
District's proportionate share of the net pension liability	\$ 3,335,324	\$ 2,719,051	\$ 2,201,552

Sensitivity 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 the net OPEB liability would be if it were calculated using a trend rate that is 1-percentage-point lower or 1-percentage-point higher:

	<u>1% Decrease</u>	<u>Current Healthcare Cost Trend Rate</u>	<u>1% Increase</u>
District's proportionate share of the net pension liability	\$ 2,179,612	\$ 2,719,051	\$ 3,335,251

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](http://www.michigan.gov/orsschools).

Payable to the OPEB Plan

At year end the District is current on all required OPEB payments. Amounts accrued at year end were \$37,952. These amounts represent current payments for June paid in July, accruals for summer pay primarily for teachers and the contributions due funded from state revenue Section 147c restricted to fund the MPSERS Unfunded Actuarial Accrued Liability (UAAL) Stabilization Rate.

**NOTE I - 403(b) RETIREMENT PLAN**

The District has a 403(b) plan which is a qualified tax sheltered annuity plan for the benefit of eligible employees. The plan is self administered by the District with a plan year ending December 31. Participants can invest in annuity contracts or custodial accounts which invest in mutual funds. The District is not required to make contributions. Distributions are governed by IRS regulations.

**L'ANSE AREA SCHOOLS  
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2020**

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**NOTE J - CONTINGENT LIABILITIES**

The pooling agreement allows for the pool to make additional assessments to make the pool self-sustaining. The District is unable to provide an estimate of the amounts of additional assessments.

The MASB-SEG Property & Casualty Pool has published its own financial report for the year ended June 30, 2020, which can be obtained through the District.

Risk Pool

L'Anse Area Schools is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Settled claims relating to commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years. The District was unable to obtain general liability insurance at a cost it considered to be economically justifiable. L'Anse Area Schools joined together with other school districts currently operating a common risk management and insurance program. L'Anse Area Schools pays an annual premium to the pool for its general insurance coverage. The agreement provides that the pool will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of \$500,000 for each insured event.

**NOTE K - COMPLIANCE OF SINKING FUNDS**

The Capital Project Funds includes activities funded with sinking fund millage. For this fund, the District has complied with the applicable provisions of Michigan Compiled Law Section 380.1212(1) and the State of Michigan Department of Treasury Letter No. 2004-4.

**NOTE L - RISK MANAGEMENT**

The District is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The District has purchased commercial insurance for general liability and employee medical benefit claims and participates in the SEG Self-insurers Workers' Disability Compensation Fund for claims relating to employee injuries. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

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

**NOTE M - UPCOMING ACCOUNTING PRONOUNCEMENTS**

Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases*, was issued by the GASB in June 2017 and will be effective for the District's 2021 year end. The objective of this Statement is to increase the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financing of the right to use the underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor, is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

**L'ANSE AREA SCHOOLS  
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2020**

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**NOTE N - SUBSEQUENT EVENTS**

Management evaluates events occurring subsequent to the date of the financial statements in determining the accounting for and disclosure of transactions and events that affect the financial statements. Subsequent events have been evaluated through the date of the accompanying independent auditor's report, which is the date the financial statements were available to be issued.

The District has three projects that consist of elementary roof project totaling \$122,500, paving of student parking lot for \$70,000, and a pole building costing \$20,637.

On July 31, 2020 the Governor signed Public Act 146 of 2020 which retroactively reduced the per pupil foundation allowance by \$175 per pupil for the 2019-2020 fiscal year. This reduced the School District's 2019-2020 state aid revenue by \$105,976 and was deducted from the August 20, 2020 state aid payment.

On September 1, 2020, the District was awarded a grant from Portage Health Foundation in the amount of \$34,950 to be used for the purchase of additional supplies, materials and other resources to assist with the District's COVID-19 response and reopening plans.

On September 22, 2020 the District was awarded elementary and secondary school relief funds from the Michigan Department of Education in the amount of \$219,414 to be used for the purchase of personal protective equipment and remote learning/technology.

On September 22, 2020 the District was approved for the extended summer food service program from the Michigan Department of Education. The program offers free meals to all students and will run through June 30, 2021.

As a result of the spread of the COVID-19 corona virus, numerous economic uncertainties have arisen. To combat the spread of the COVID-19, the governor of Michigan issued a "stay at home" order beginning on March 23, 2020, that lasted for over 70 days. This order required the closure of all non-essential businesses and required residents to shelter in place. The "stay at home" order, like many others across the country, has disrupted supply chains and affected production and sales across a range of industries. The extent of the impact of COVID-19 on operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, impact on customers, employees and vendors all of which are uncertain and cannot be predicted. At this point, the extent to which COVID-19 may impact the financial condition or results of operations is uncertain.

**NOTE O - CHANGE IN ACCOUNTING PRINCIPLE**

The net position of the governmental activities and other governmental funds were restated effective July 1, 2019 to reflect the implementation of GASB Statement No. 84, *Fiduciary Activities*.

Governmental Accounting standards Board Statement 84, *Fiduciary Activities*, was issued by GASB in January 2017 and is effective for the District's 2021 year end. The District early implemented this statement as it was originally effective with the 2020 year. The objective of this Statement is to improve guidance regarding identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement establishes criteria for identifying fiduciary activities for all state and local governments. The focus on the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. Districts with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position,

As a result of implementing this accounting change, Michigan Department of Education established a Special Revenue Fund for Student Activity Fund. The beginning net position of the Student Activity Fund was determined to be \$47,650.



**L'ANSE AREA SCHOOLS**  
**NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2020**

**NOTE O - CHANGE IN ACCOUNTING PRINCIPLE (Continued)**

The restatement of net position at the beginning of the year and fund balance at beginning of the year is as follows:

	<u>Fund Balances</u>	
	<u>Other Non-Major Funds</u>	<u>Total Governmental Funds</u>
Fund balances at beginning, as previously stated	\$ 485,330	\$ 2,518,934
Adoption of GASB Statement 84	47,650	47,650
Fund balances at beginning, as restated	<u>\$ 532,980</u>	<u>\$ 2,566,584</u>
		<u>Governmental Activities</u>
Net position at beginning of year, as previously stated		\$ (7,507,236)
Adoption of GASB Statement 84		47,650
Net position at beginning, as restated		<u>\$ (7,459,586)</u>

**REQUIRED SUPPLEMENTARY INFORMATION**

**L'ANSE AREA SCHOOLS**  
**GENERAL FUND**  
**BUDGETARY COMPARISON SCHEDULE**  
**Year Ended June 30, 2020**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance Final to Actual</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Local sources	\$ 1,532,082	\$ 1,546,413	\$ 1,532,055	\$ (14,358)
State sources	4,586,317	4,681,158	4,548,632	(132,526)
Federal sources	656,078	796,249	820,052	23,803
Total revenues	<u>6,774,477</u>	<u>7,023,820</u>	<u>6,900,739</u>	<u>(123,081)</u>
Expenditures				
Instruction				
Basic program	3,254,117	3,234,345	3,232,840	1,505
Summer school	3,030	162	159	3
Special education	552,987	484,099	481,765	2,334
Compensatory education	430,177	431,098	432,387	(1,289)
Vocational education	38,556	44,910	42,502	2,408
Support services				
Pupil	245,199	224,432	224,424	8
Instructional staff	56,839	44,111	41,297	2,814
General administration	294,657	288,429	279,982	8,447
School administration	434,917	447,528	446,097	1,431
Community services	64,916	44,306	37,472	6,834
Athletics	141,020	133,218	133,220	(2)
Business-fiscal services	155,277	154,964	151,316	3,648
Operations & maintenance	623,332	647,658	643,488	4,170
Pupil transportation	381,943	424,686	424,704	(18)
Central support	135,903	140,925	140,724	201
Total expenditures	<u>6,812,870</u>	<u>6,744,871</u>	<u>6,712,377</u>	<u>32,494</u>
Excess (deficiency) of revenues over expenditures	(38,393)	278,949	188,362	(90,587)
Other financing sources (uses)				
Incoming transfers - other schools	68,000	81,812	101,560	19,748
Indirect recovery	-	22,200	18,478	(3,722)
Operating transfers in (out)	(163,650)	(153,820)	(153,820)	-
Bond payments	-	(144,067)	(144,067)	-
Proceeds from the sale of capital assets	-	1,000	1,150	150
Other outgoing transfers	-	(3,200)	-	3,200
Total other financing sources (uses)	<u>(95,650)</u>	<u>(196,075)</u>	<u>(176,699)</u>	<u>19,376</u>
Net change in fund balances	<u>\$ (134,043)</u>	<u>\$ 82,874</u>	11,663	<u>\$ (71,211)</u>
Fund balances - Beginning of year			<u>2,033,604</u>	
Fund balances - End of year			<u>\$ 2,045,267</u>	

**L'ANSE AREA SCHOOLS  
PENSION REQUIREMENTS  
Year Ended June 30, 2020**

**SCHEDULE OF THE DISTRICT'S PROPORTIONATE  
SHARE OF THE NET PENSION LIABILITY**

Michigan Public School Employees Retirement Plan  
Last Six Fiscal Years (Amounts were determined as of 9/30 of each fiscal year)

	<u>9/30/2014</u>	<u>9/30/2015</u>	<u>9/30/2016</u>	<u>9/30/2017</u>	<u>9/30/2018</u>	<u>9/30/2019</u>
A. District's proportion of net pension liability	0.03690 %	0.03713 %	0.03781 %	0.03792 %	0.03724 %	0.03738 %
B. District's proportionate share of net pension liability	\$ 8,128,491	\$ 9,068,797	\$ 9,432,565	\$ 9,826,389	\$ 11,195,765	\$ 12,377,824
C. District's covered payroll	\$ 3,127,398	\$ 3,111,250	\$ 3,235,317	\$ 3,162,801	\$ 3,153,197	\$ 3,326,705
D. District's proportionate share of net pension liability as a percentage of its covered payroll	259.91 %	291.48 %	291.55 %	310.69 %	355.06 %	372.07 %
E. Plan fiduciary net position as a percentage of total pension liability	66.20 %	63.17 %	63.27 %	64.21 %	62.36 %	60.31 %

**SCHEDULE OF THE DISTRICT'S CONTRIBUTIONS**

Michigan Public School Employees Retirement Plan  
Last Six Fiscal Years (Amounts were determined as of 6/30 of each fiscal year)

	<u>6/30/2015</u>	<u>6/30/2016</u>	<u>6/30/2017</u>	<u>6/30/2018</u>	<u>6/30/2019</u>	<u>6/30/2020</u>
A. Statutorily required contributions	\$ 677,815	\$ 613,863	\$ 591,219	\$ 554,084	\$ 579,764	\$ 603,366
B. Contributions in relation to statutorily required contributions	677,815	613,863	591,219	554,084	579,764	603,366
C. Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
D. District's covered payroll	\$ 3,094,281	\$ 3,235,596	\$ 3,163,386	\$ 3,161,330	\$ 3,298,109	\$ 3,276,936
E. Contributions as a percentage of covered payroll	22.00 %	25.00 %	18.69 %	17.53 %	17.58 %	18.41 %

**L'ANSE AREA SCHOOLS  
OPEB REQUIREMENTS  
Year Ended June 30, 2020**

**SCHEDULE OF THE DISTRICT'S PROPORTIONATE  
SHARE OF NET OPEB LIABILITY**

Michigan Public School Employees Retirement Plan  
(Amounts were determined as of 9/30 of each plan year)

	<u>9/30/2017</u>	<u>9/30/2018</u>	<u>9/30/2019</u>
A. District's proportion of net OPEB liability	0.03799 %	0.03695 %	0.03788 %
B. District's proportionate share of net OPEB liability	\$ 3,364,475	\$ 2,936,927	\$ 2,719,051
C. District's covered payroll	\$ 3,162,801	\$ 3,153,197	\$ 3,326,705
D. District's proportionate share of net OPEB liability as a percentage of its covered payroll	106.38 %	93.14 %	81.73 %
E. Plan fiduciary net position as a percentage of total OPEB liability	36.39 %	42.95 %	48.46 %

**SCHEDULE OF THE DISTRICT'S OPEB CONTRIBUTIONS**

Michigan Public School Employees Retirement Plan  
(Amounts were determined as of 6/30 of each fiscal year)

	<u>6/30/2018</u>	<u>6/30/2019</u>	<u>6/30/2020</u>
A. Statutorily required contributions	\$ 234,553	\$ 257,384	\$ 261,349
B. Contributions in relation to statutorily required contributions	234,553	257,384	261,349
C. Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
D. District's covered payroll	\$ 3,161,330	\$ 3,298,109	\$ 3,276,936
E. Contributions as a percentage of covered payroll	7.42 %	7.80 %	7.98 %

**L'ANSE AREA SCHOOLS**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - June 30, 2020**

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Pension Information

Ten years of data are required in the pension related schedules. The number of years presented as of June 30, 2020 represent the number of years since the accounting standard requiring these schedules came into effect.

**NOTE A - CHANGE OF BENEFIT TERMS**

There were no changes of benefit terms in 2019.

**NOTE B - CHANGE OF ASSUMPTIONS**

During the year, MPSERS approved a decrease in the discount rate for the September 30, 2019 annual actuarial valuation of 0.25 percent from 7.05% to 6.8% for the non-hybrid plan.

OPEB Information

Ten years of data are required in the OPEB related schedules. The number of years presented as of June 30, 2020 represent the number of years since the accounting standard requiring these schedules came into effect.

**NOTE A - CHANGE OF BENEFIT TERMS**

There were no changes of benefit terms in 2019.

**NOTE B - CHANGE OF ASSUMPTIONS**

During the year, MPSERS approved a decrease in the discount rate for the September 30, 2019 annual actuarial valuation of 0.20 percent from 7.15% to 6.95% for the OPEB plan.

**OTHER SUPPLEMENTAL FINANCIAL INFORMATION**

**L'ANSE AREA SCHOOLS**  
**GENERAL FUND**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCES**  
**Year Ended June 30, 2020**

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues			
Local sources			
Taxes	\$ 1,274,177	\$ 1,279,823	\$ 5,646
Penalties and interest	6,700	8,128	1,428
Earnings on investments	24,690	25,418	728
Athletics	32,964	35,805	2,841
Contributions	18,000	23,028	5,028
Community services	2,065	3,564	1,499
Miscellaneous	117,817	98,730	(19,087)
Total local sources	<u>1,476,413</u>	<u>1,474,496</u>	<u>(1,917)</u>
Intermediate sources	70,000	57,559	(12,441)
State sources			
Unrestricted state aid	<u>3,576,489</u>	<u>3,470,383</u>	<u>(106,106)</u>
Restricted grants			
Special education	201,638	179,384	(22,254)
MPSERS UAAL Stabilization/Cost Offset	532,183	549,249	17,066
At-risk	345,172	317,589	(27,583)
Vocational Education	2,903	3,778	875
Other grants	22,773	28,249	5,476
Total restricted grants	<u>1,104,669</u>	<u>1,078,249</u>	<u>(26,420)</u>
Total state sources	<u>4,681,158</u>	<u>4,548,632</u>	<u>(132,526)</u>
Federal sources			
Title I	129,250	130,426	1,176
Title II	20,500	20,601	101
Title VII	42,000	38,353	(3,647)
Impact Aid	454,884	454,884	-
Ottawa National Forest	84,000	113,444	29,444
REAP	20,100	20,114	14
Other federal revenue	5,000	1,703	(3,297)
QZAB	40,515	40,527	12
Total federal sources	<u>796,249</u>	<u>820,052</u>	<u>23,803</u>
Total revenues	<u>7,023,820</u>	<u>6,900,739</u>	<u>(110,640)</u>
Expenditures			
Instruction			
Basic program			
Elementary school	1,400,516	1,400,177	339
High school	1,833,829	1,832,663	1,166
Total basic program	<u>3,234,345</u>	<u>3,232,840</u>	<u>1,505</u>
Added needs			
Summer school	162	159	3
Special education	484,099	481,765	2,334
Compensatory education	431,098	432,387	(1,289)
Vocational education	44,910	42,502	2,408
Total added needs	<u>960,269</u>	<u>956,813</u>	<u>3,456</u>
Total instruction	<u>4,194,614</u>	<u>4,189,653</u>	<u>4,961</u>



**L'ANSE AREA SCHOOLS**  
**GENERAL FUND**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCES (Continued)**  
**Year Ended June 30, 2020**

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Supporting services			
Pupil			
Attendance	\$ 8,940	\$ 9,172	\$ (232)
Guidance	186,734	186,934	(200)
Health	11,179	10,910	269
Other pupil services	17,579	17,408	171
Total pupil	<u>224,432</u>	<u>224,424</u>	<u>8</u>
Instructional staff			
Improvement of instruction	18,586	18,467	119
Library	7,450	7,310	140
Supervision/direction of instructional staff	9,712	7,157	2,555
Academic student assessment	8,363	8,363	-
Total instructional staff	<u>44,111</u>	<u>41,297</u>	<u>2,814</u>
General administration			
Board of education	37,247	30,970	6,277
Executive administration	251,182	249,012	2,170
Total general administration	<u>288,429</u>	<u>279,982</u>	<u>8,447</u>
School administration	447,528	446,097	1,431
Other supporting services:			
Community services	44,306	37,472	6,834
Athletics	133,218	133,220	(2)
Business-fiscal services	154,964	151,316	3,648
Operations & maintenance	647,658	643,488	4,170
Pupil transportation	424,686	424,704	(18)
Central support	140,925	140,724	201
Total other supporting services	<u>1,545,757</u>	<u>1,530,924</u>	<u>14,833</u>
Total supporting services	<u>2,550,257</u>	<u>2,522,724</u>	<u>27,533</u>
Total expenditures	<u>6,744,871</u>	<u>6,712,377</u>	<u>32,494</u>
Excess (deficiency) of revenues over expenditures	278,949	188,362	(90,587)
Other financing sources (uses)			
Incoming transfers - other schools	81,812	101,560	19,748
Indirect recovery	22,200	18,478	(3,722)
Operating transfers in (out)	(153,820)	(153,820)	-
Bond payments	(144,067)	(144,067)	-
Proceeds from the sale of capital assets	1,000	1,150	150
Other outgoing transfers	(3,200)	-	3,200
Total other financing sources (uses)	<u>(196,075)</u>	<u>(176,699)</u>	<u>19,376</u>
Net change in fund balances	<u>\$ 82,874</u>	11,663	<u>\$ (71,211)</u>
Fund balances - Beginning of year		<u>2,033,604</u>	
Fund balances - End of year		<u>\$ 2,045,267</u>	

**L'ANSE AREA SCHOOLS**  
**NON-MAJOR FUNDS**  
**COMBINING BALANCE SHEETS**  
**June 30, 2020**

	<u>Food Service Fund</u>	<u>Student Activities Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects</u>	<u>Total</u>
<b>Assets</b>					
Cash and investments	\$ 4,314	\$ 42,325	\$ 181,456	\$ 309,589	\$ 537,684
Receivables	1,120	-	-	-	1,120
Due from governmental units	58,146	-	1,001	7,838	66,985
Inventories	8,140	-	-	-	8,140
<b>Total assets</b>	<b><u>\$ 71,720</u></b>	<b><u>\$ 42,325</u></b>	<b><u>\$ 182,457</u></b>	<b><u>\$ 317,427</u></b>	<b><u>\$ 613,929</u></b>
<b>Liabilities</b>					
Accrued expenses	\$ 5,621	\$ -	\$ -	\$ -	\$ 5,621
Other current liabilities	5,492	-	-	-	5,492
Due to other funds	2,567	-	-	-	2,567
Due to governmental units	-	-	31,514	-	31,514
<b>Total liabilities</b>	<b><u>13,680</u></b>	<b><u>-</u></b>	<b><u>31,514</u></b>	<b><u>-</u></b>	<b><u>45,194</u></b>
<b>Fund balances</b>					
Non-spendable	8,140	-	-	-	8,140
Assigned	-	-	-	290,792	290,792
Committed for student school activities	-	42,325	-	-	42,325
Restricted	49,900	-	150,943	26,635	227,478
<b>Total fund balances</b>	<b><u>58,040</u></b>	<b><u>42,325</u></b>	<b><u>150,943</u></b>	<b><u>317,427</u></b>	<b><u>568,735</u></b>
<b>Total liabilities and fund balances</b>	<b><u>\$ 71,720</u></b>	<b><u>\$ 42,325</u></b>	<b><u>\$ 182,457</u></b>	<b><u>\$ 317,427</u></b>	<b><u>\$ 613,929</u></b>

**L'ANSE AREA SCHOOLS**  
**NON-MAJOR FUNDS**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCES**  
**Year Ended June 30, 2020**

	Food Service Fund	Student Activities Fund	Debt Service Fund	Capital Projects	Total
Revenues					
Local sources	\$ 211,126	\$ 38,821	\$ 446,847	\$ 153,420	\$ 850,214
State sources	13,053	-	22,558	-	35,611
Federal sources	203,100	-	-	-	203,100
Total revenues	<u>427,279</u>	<u>38,821</u>	<u>469,405</u>	<u>153,420</u>	<u>1,088,925</u>
Expenditures					
School food service	391,464	-	-	-	391,464
Student activities	-	44,146	-	-	44,146
Debt service	-	-	81,117	-	81,117
Capital projects	-	-	-	276,785	276,785
Total expenditures	<u>391,464</u>	<u>44,146</u>	<u>81,117</u>	<u>276,785</u>	<u>793,512</u>
Excess (deficiency) of revenues over expenditures	<u>35,815</u>	<u>(5,325)</u>	<u>388,288</u>	<u>(123,365)</u>	<u>295,413</u>
Other financing sources (uses)					
Operating transfers in (out)	3,820	-	-	150,000	153,820
Debt principal payments	-	-	(395,000)	-	(395,000)
Indirect recovery	(18,478)	-	-	-	(18,478)
Total other financing sources (uses)	<u>(14,658)</u>	<u>-</u>	<u>(395,000)</u>	<u>150,000</u>	<u>(259,658)</u>
Net change in fund balances	21,157	(5,325)	(6,712)	26,635	35,755
Fund balances - Beginning of year	<u>36,883</u>	<u>47,650</u>	<u>157,655</u>	<u>290,792</u>	<u>532,980</u>
Fund balances - End of year	<u>\$ 58,040</u>	<u>\$ 42,325</u>	<u>\$ 150,943</u>	<u>\$ 317,427</u>	<u>\$ 568,735</u>

**L'ANSE AREA SCHOOLS**  
**SCHOOL FOOD SERVICE FUND**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCES**  
**Year Ended June 30, 2020**

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues			
Local sources			
Adult lunches	\$ 4,162	\$ 4,221	\$ 59
A-La-Carte	2,844	2,848	4
Breakfast	24	24	-
Earnings on investments	150	41	(109)
Catering	199,985	203,950	3,965
Miscellaneous	-	42	42
Total local sources	<u>207,165</u>	<u>211,126</u>	<u>3,961</u>
State sources	13,400	13,053	(347)
Federal sources			
School lunch program	179,694	179,694	-
USDA entitlements	20,905	23,406	2,501
Total federal sources	<u>200,599</u>	<u>203,100</u>	<u>2,501</u>
Total revenues	<u>421,164</u>	<u>427,279</u>	<u>6,115</u>
Expenditures			
Salaries	95,000	88,859	6,141
Employee benefits	56,500	53,745	2,755
Purchased services	1,750	2,645	(895)
Supplies, materials, and other	246,705	246,215	490
Total expenditures	<u>399,955</u>	<u>391,464</u>	<u>8,491</u>
Excess (deficiency) of revenues over expenditures	21,209	35,815	14,606
Other financing sources (uses)			
Operating transfers in (out)	3,820	3,820	-
Indirect recovery	(18,500)	(18,478)	22
Total other financing sources (uses)	<u>(14,680)</u>	<u>(14,658)</u>	<u>22</u>
Net change in fund balances	<u>\$ 6,529</u>	21,157	<u>\$ 14,628</u>
Fund balances - Beginning of year		<u>36,883</u>	
Fund balances - End of year		<u>\$ 58,040</u>	

**L'ANSE AREA SCHOOLS**  
**CAPITAL PROJECTS FUND**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCES**  
**Year Ended June 30, 2020**

	Capital Projects Fund	Sinking Fund	Total
	<u>          </u>	<u>          </u>	<u>          </u>
Revenues			
Taxes	\$ -	\$ 144,687	\$ 144,687
Penalties and interest	-	785	785
Contributions	7,500	-	7,500
Earnings on investments	354	94	448
Total revenues	<u>7,854</u>	<u>145,566</u>	<u>153,420</u>
 Expenditures			
Other improvements	<u>144,119</u>	<u>132,666</u>	<u>276,785</u>
Total expenditures	<u>144,119</u>	<u>132,666</u>	<u>276,785</u>
 Excess (deficiency) of revenues over expenditures	(136,265)	12,900	(123,365)
 Other financing sources (uses)			
Operating transfers in (out)	<u>150,000</u>	<u>-</u>	<u>150,000</u>
 Net change in fund balances	13,735	12,900	26,635
 Fund balances - Beginning of year	<u>285,655</u>	<u>5,137</u>	<u>290,792</u>
 Fund balances - End of year	<u>\$ 299,390</u>	<u>\$ 18,037</u>	<u>\$ 317,427</u>

**L'ANSE AREA SCHOOLS**  
**SCHOLARSHIP TRUST FUND ACTIVITY**  
**Year Ended June 30, 2020**

Scholarship Title	Balance July 01, 2019	Increases	Decreases	Balance June 30, 2020
1960 Alumni	\$ -	\$ 1,000	\$ -	\$ 1,000
Align Chiropractic	10,000	901	2,500	8,401
Berg Memorial	4,141	387	-	4,528
Board of Education	16,876	1,590	-	18,466
Dubuque	353	37	390	-
Guay	21,423	1,037	900	21,560
Guy	4,415	39	-	4,454
Higgins	80,849	4,361	2,000	83,210
Juntunen	18,448	836	-	19,284
Koivu	700	602	-	1,302
McKindles	200	258	200	258
Pasquali	-	1,000	1,000	-
Roth	45,248	1,439	1,000	45,687
Sirard	3,100	329	1,000	2,429
St. John	109,598	7,415	1,400	115,613
Totals	<u>\$ 315,351</u>	<u>\$ 21,231</u>	<u>\$ 10,390</u>	<u>\$ 326,192</u>

**L'ANSE AREA SCHOOLS  
FEDERAL AWARDS  
June 30, 2020**

# **RUKKILA | NEGRO AND ASSOCIATES**

*Certified Public Accountants, PC*

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## **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  
L'Anse Area Schools  
L'Anse, Michigan

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of L'Anse Area Schools as of and for the year then ended June 30, 2020, which collectively comprise L'Anse Area Schools' basic financial statements and have issued our report thereon dated November 25, 2020.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) 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 District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will be 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 District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.



## **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.

*Rukkila, Negro & Associates,  
Certified Public Accountants, PC*

November 25, 2020

# **RUKKILA | NEGRO AND ASSOCIATES**

*Certified Public Accountants, PC*

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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  
L'Anse Area Schools  
L'Anse, Michigan

### **Report on Compliance for Each Major Federal Program**

We have audited L'Anse 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 L'Anse Area Schools' major federal programs for the year ended June 30, 2020. L'Anse Area Schools' major federal programs are identified in the summary of auditors results section of the accompanying schedule of findings and questioned costs.

### **Management Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of L'Anse 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 L'Anse 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 L'Anse Area Schools' compliance.

### **Opinion on Each Major Federal Program**

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

## Report on Internal Control Over Compliance

Management of L'Anse 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 L'Anse 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 Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or 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 Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*Rukkila, Negro & Associates,  
Certified Public Accountants, PC*

November 25, 2020

**L'ANSE AREA SCHOOLS**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**Year Ended June 30, 2020**

Federal Grantor Pass Through Grantor Program Title	Federal CFDA Number	Approved Grant Award Amount	Accrued (Deferred) Revenue July 01, 2019	Current Year Cash Receipts	Current Year Expenditures	Accrued (Deferred) Revenue June 30, 2020
<i>U.S. Department of Education:</i>						
Direct						
Indian Education - E-T003E000999	84.003E	\$ 483,500	\$ (642)	\$ -	\$ -	\$ (642)
Title VII - S060A040658	84.060A	43,244	-	30,534	38,353	7,819
Small Rural Achievement Grant - REAP	84.358A	15,099	-	20,114	20,114	-
Office of School Support & Technology Programs	XX.XXX	44,786	-	40,527	40,527	-
P.L. 874 - Impact Aid	84.041	500,321	-	454,884	454,884	-
Total Direct		<u>1,086,950</u>	<u>(642)</u>	<u>546,059</u>	<u>553,878</u>	<u>7,177</u>
Passed through Michigan Department of Education						
Title I Part A 191530-1819	84.010	150,073	44,076	44,076	-	-
Title I Part A 201530-1920	84.010	146,236	-	81,946	130,426	48,480
		<u>296,309</u>	<u>44,076</u>	<u>126,022</u>	<u>130,426</u>	<u>48,480</u>
Title II Part A 190520-1819	84.367	51,202	20,696	20,696	-	-
Title II Part A 200520-1920	84.367	36,521	-	11,139	20,601	9,462
		<u>87,723</u>	<u>20,696</u>	<u>31,835</u>	<u>20,601</u>	<u>9,462</u>
Title IV Part A 190750-1819	84.424	10,000	788	788	-	-
Title IV Part A 200750-2020	84.424	10,000	-	-	1,703	1,703
		<u>20,000</u>	<u>788</u>	<u>788</u>	<u>1,703</u>	<u>1,703</u>
Total passed through M.D.E.		<u>404,032</u>	<u>65,560</u>	<u>158,645</u>	<u>152,730</u>	<u>59,645</u>
Total U.S. Department of Education		<u>1,490,982</u>	<u>64,918</u>	<u>704,704</u>	<u>706,608</u>	<u>66,822</u>
<i>U.S. Department of Agriculture</i>						
Passed through Michigan Department of Education						
National School Lunch						
NSLP Section 4 - All Lunches	10.555	38,071	1,197	41,676	40,479	-
School Breakfast Program	10.553	173,070	4,145	143,360	139,215	-
		<u>211,141</u>	<u>5,342</u>	<u>185,036</u>	<u>179,694</u>	<u>-</u>
Food Distributions - Entitlement Commodities	10.565	23,406	-	23,406	23,406	-
		<u>234,547</u>	<u>5,342</u>	<u>208,442</u>	<u>203,100</u>	<u>-</u>
Passed through Houghton County						
Ottawa National Forest	10.665	113,444	-	113,444	113,444	-
Total U.S. Department of Agriculture		<u>347,991</u>	<u>5,342</u>	<u>321,886</u>	<u>316,544</u>	<u>-</u>
Totals		<u>\$ 1,838,973</u>	<u>\$ 70,260</u>	<u>\$ 1,026,590</u>	<u>\$ 1,023,152</u>	<u>\$ 66,822</u>

The accompanying notes to the financial statements are an integral part of this statement.

**L'ANSE AREA SCHOOLS**  
**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - June 30, 2020**

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**NOTE A - OVERSIGHT AGENCY**

The U. S. Department of Education is the current year's oversight agency for the single audit as determined by the agency providing the largest share of the school's expenditures of federal awards.

**NOTE B - BASIS OF ACCOUNTING**

The Schedule of Expenditures of Federal Awards has been prepared on the accrual basis of accounting.

**NOTE C - FINAL COST REPORT - FORM DS4044**

The final cost reports are not due until 60 days after the end of the grant period. The reports for the current year grants were not completed as of the date of our report. However, we reviewed the reports filed for the prior year grants and noted that they agreed with either the prior year audited figures or the prior year and current year audit figures combined.

**NOTE D - SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS RECONCILIATION**

A reconciliation of expenditures on the Schedule of Expenditures of Federal Awards to federal revenue recognized on page 17 of these financial statements is \$1,023,152. The amounts reported as current payments on the MDE grant auditor reports reconcile with the Schedule of Expenditures of Federal Awards as follows:

Total current payments per MDE Reports	\$	528,593
Prior year grants reported		(197,872)
Payments received through other sources		
Title VII		38,353
Office of School Support & Technology Programs (QZAB)		40,527
Impact Aid		454,884
Food Distributions - Entitlement Commodities		23,406
Ottawa National Forest		113,444
Small Rural Achievement Grant - REAP		20,114
Title IV accrued revenue		1,703
Schedule of Expenditures of Federal Awards	\$	<u>1,023,152</u>

**L'ANSE AREA SCHOOLS**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**Year Ended June 30, 2020**

**SECTION I - SUMMARY OF AUDITOR'S RESULTS**

***Financial Statements***

Type of auditor's report issued:	Unmodified
Internal Control over financial reporting:	
• Material weakness(es) identified?	No
• Significant deficiency(ies) identified that are not considered to be material weaknesses?	None Reported
Noncompliance material to financial statements noted?	No

***Federal Awards***

Internal control over major programs:	
• Material weakness(es) identified?	No
• Significant deficiency(ies) identified that are not considered to be material weaknesses?	None Reported
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in with Title 2 CFR Section 200.516(a)??	No

Identification of major programs:	<u>CFDA Number</u> 84.041	<u>Name of Federal Program or Cluster</u> Impact Aid
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Dollar threshold used to distinguish between type A and type B program:	\$750,000
Auditee qualified as low-risk auditee?	Yes

**SECTION II - FINANCIAL STATEMENT FINDINGS**

No matters were reported.

**SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

No matters were reported.

## **COMMUNICATION SECTION**

# RUKKILA | NEGRO AND ASSOCIATES

*Certified Public Accountants, PC*

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## COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

To the Board of Education  
L'Anse Area Schools  
L'Anse, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of L'Anse 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, *Government Auditing Standards*, and the OMB's Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, 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 September 4, 2020. Professional standards also require that we communicate to you the following information related to our audit.

### Our Responsibility under U.S. Generally Accepted Auditing Standards, *Government Auditing Standards* and OMB's Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)

As stated in our engagement letter, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

In planning and performing our audit, we considered L'Anse Area Schools' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with the Uniform Guidance.

As part of obtaining reasonable assurance about whether L'Anse Area Schools' financial statements are free of material misstatement, we performed test of its compliance with certain provisions of laws, regulations, contracts, and grants, 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. Also in accordance with the Uniform Guidance, we examined, on a test basis, evidence about L'Anse Area Schools' compliance with the types of compliance requirements described in the *OMB Compliance Supplement* applicable to its major federal program for the purpose of expressing an opinion on L'Anse Area Schools' compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on L'Anse Area Schools' compliance with those requirements.

Our responsibility for the supplementary information accompanying the financial statement, as described by professional standards, is to evaluate the presentation of the supplementary information in relation to the financial statements as a whole and to report on whether the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.



### *Planned Scope and Timing of the Audit*

We performed the audit according to the planned scope and timing previously communicated to you.

### Significant Audit Findings

#### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by L'Anse 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 the year ended June 30, 2020. We noted no transactions entered into by the L'Anse 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 estimates affecting the Governmental Activities financial statements were:

Management's estimate of the liability of the payout for the employee compensated absences upon their retirement is based on expected payout:

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

Management's estimate of the lives of capital assets:

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

Management's estimate of the net pension and net OPEB liability:

- We evaluated the key factors and assumptions used to develop the liabilities related to the Municipal Employees' Retirement System of Michigan, which are based on actuarial valuations.

#### *Difficulties Encountered in Performing the Audit*

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

#### *Corrected and Uncorrected Misstatements*

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

#### *Disagreements with Management*

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

### *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated November 25, 2020.

### *Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the L'Anse 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 L'Anse 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 and Schedules related to the Proportionate Share and Contributions of the District's Net Pension Liability, which are required supplementary information (RSI) that supplements 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 combining and individual fund statements and schedules, which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

### *Restriction on Use*

This information is intended solely for the use of the L'Anse Area Schools' board and management and is not intended to be and should not be used for anyone other than these specified parties.

*Rukkila, Negro & Associates,  
Certified Public Accountants, PC*

November 25, 2020

**L'ANSE AREA SCHOOLS  
COMMENTS AND RECOMMENDATIONS  
JUNE 30, 2020**

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During our audit we became aware of an opportunity for strengthening internal controls and operating efficiencies. The following item summarizes our comment and suggestion regarding this matter.

We will review the status of this comment during our next audit engagement. We have already discussed this comment and suggestion with various personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

*Budget Review*

The Uniform Budgeting Act requires entities to approve an operating budget prior to the beginning of the year and that all amendments to budget made throughout the year are approved. Districts shall not incur expenditures in excess of the amount appropriated. The approved budgets of these funds were adopted on an activity and/or program level. During the year ended June 30, 2020, the District incurred expenditures which were in excess of the amounts appropriated as shown within the required supplemental financial information.

The District should control expenditures in each governmental fund so as not to exceed the amounts appropriated. When this is not possible, the budget should be amended accordingly. We recommend that the District review the provisions of Public Act 2 of 1968, as amended, to determine proper compliance procedures.